NEW MARKET INFLATION AHEAD? ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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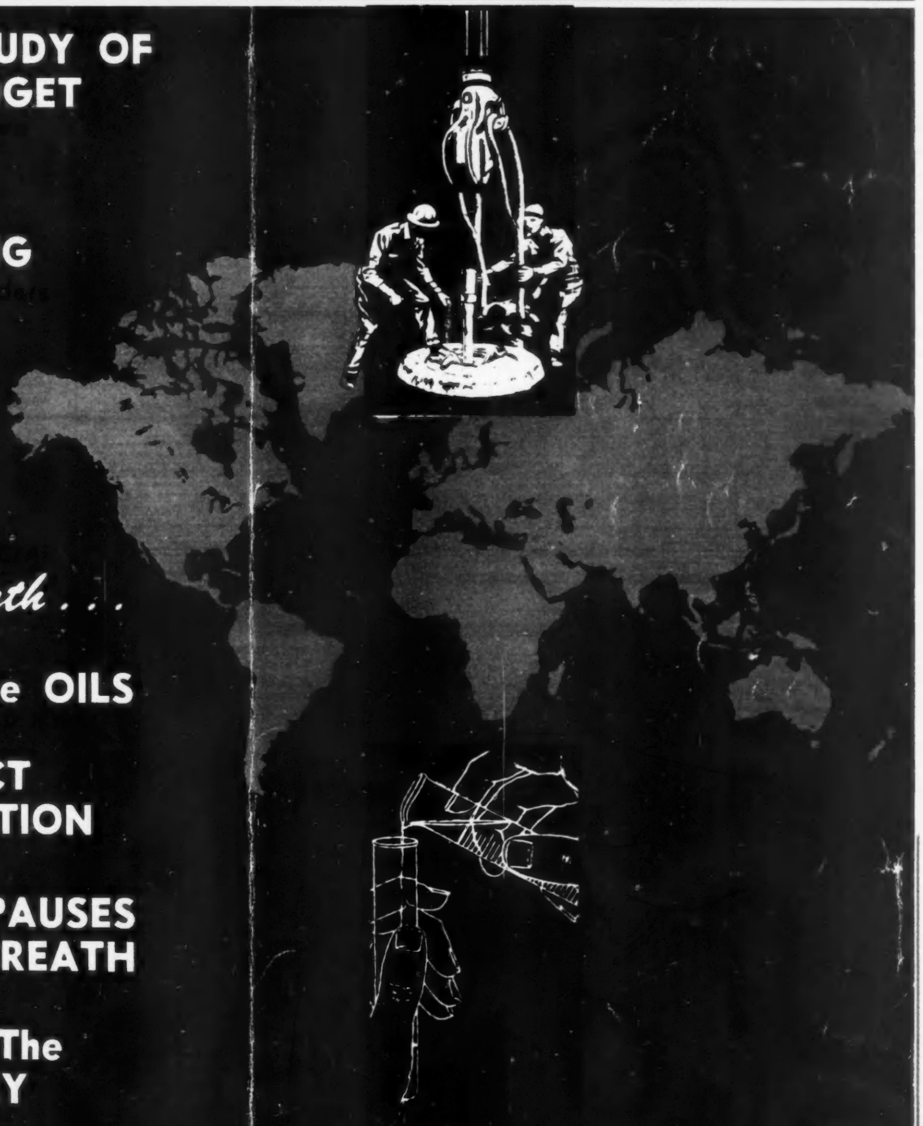

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THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

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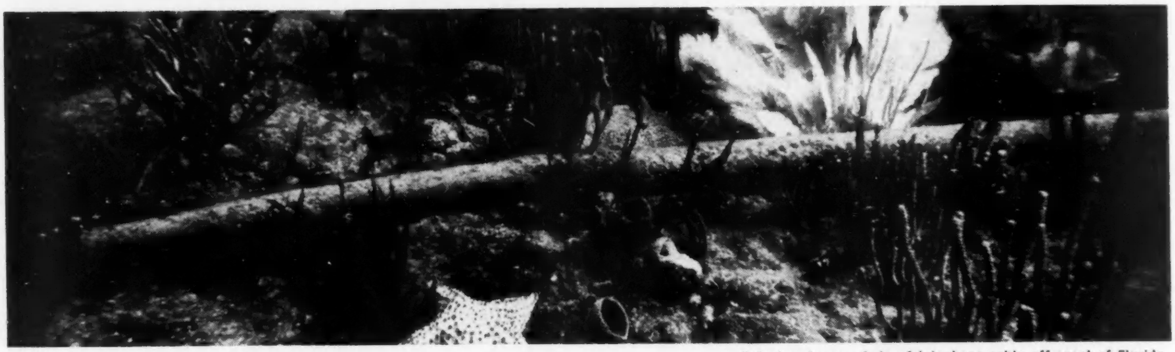
Unretouched time exposure shows Echo I communications satellite (long line) crossing heavens right to left. Shorter lines are stars "in motion."

from the reaches of space



Actual undersea photo of telephone cable off coast of Florida.

to the depths of the sea

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THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*

The Trend of Events

"GET YOUR SHARE": A NATIONAL PHOBIA . . . President Kennedy's 1962 budget, analyzed elsewhere in this issue, incorporates significant changes in specific appropriations and in economic philosophy. Yet, it really contains no surprises. Kennedy was elected on a spending platform; now he is merely living up to his advance billing. As a matter of fact, as our author suggests, the present budget may be his most conservative—his spending proclivities are likely to flourish with the passage of time.

Although the newspapers have placed the greatest emphasis upon changes in the defense program, it is actually the civilian budget that has been increased most sharply over Eisenhower's estimates.

The constantly larger outflow of health and welfare, agriculture, education, and numerous other benefits is commonly justified by the platitude that "The government must provide for the people those services that they cannot provide for themselves." Unless the fallacy within this deceptive half-truth can be exposed, it could be used to lead us far down an extremely dangerous path.

Traditionally, our people have believed in and have practiced a high degree of self-sufficiency, carrying out most public projects on a local basis. But for a number of years now, and under a variety of schemes, the federal government has offered to "share"—as high as 90%—in the cost of various local projects—schools, sewage works, highways and many others. The inevitable result has been that every community has felt obliged, in order to secure some return upon its own tax payments, to seek its share of the federally supported programs. The general motto has become, "Get your share", and in practice, of course, this means to get somewhat more than your share. Otherwise, the game would be pointless.

If the ability to support schools and other services on a local basis has faltered, one important reason is the heavy federal tax levies. A second is the ever-present hope that a substantial federal contribution can be secured. A more effective method of discouraging local initiative could hardly be contrived.

"Get your share" (and a little more) has become a national disease, another symptom of the prevailing decline in private *and public* morality. Unless we can have some swing of the pendulum back toward the old ideals of self-reliance, the outlook for the nation is indeed discouraging.

The small community of Italy, Texas, has just provided an inspiring example by its refusal of a federal grant for tornado relief, on the ground that its financial situation is stronger than that of the national government. Let's hope that a good example can be as contagious as a bad one.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

As I See It!

By JACK BAME

EVALUATING THE INNOVATION OF NEW FEDERAL RESERVE OPEN MARKET POLICY

— Greeted with acclaim by some — "boos" by others

AN official announcement made on February 20th of this year confirmed previous signs of a departure from the long-debated Federal Reserve open market policy of "bills only" or "bills usually". The key words were these: "The System Open Market Account is purchasing in the open market U.S. Government notes and bonds of varying maturities, some of which will exceed five years. . . . During recent years transactions . . . except in correction of disorderly markets, have been made in short-term U.S. Government securities. Authority for transactions in securities of longer maturity has been granted . . . in the light of conditions that have developed in the domestic economy and in the U.S. balance of payments with other countries."

A rash of reactions to the move—ranging from enthusiastic support, to cries of a return to the "pegging" of Government bonds—have stirred up a new beehive of "popularized" arguments, which very often stray off into side issues. It might be well to ask and try to answer a few basic questions here, in order to define more closely the meaning of the new policy.

► Is the move really such a "radical" departure? ► What were the main reasons for the change? ► What has been done, what effects have been evident and what problems may be created? ► What is the over-all monetary management picture?

Change in Policy Not As Abrupt as First Appeared

The departure from previous limitations on open market operations is not a wild scheme. The bills only policy has long been a major area of argument within the confines of the Federal Reserve System itself. First, it should be explained that purchases (or sales) of government securities in the open market by the Fed—whether short-term or long-term—act to increase (or decrease) bank reserves and thus the availability of bank credit, which in turn affects the rate of interest.

The Federal Reserve Bank of New York (especially its past President, Allan Sproul) has already, for a number of years, been a proponent of intervening in the long term market, to influence long term interest rates. This would mean buying longer term bonds, thereby raising their prices and lowering their yields, which have tended to be sticky. The presumed interaction between short and long-term interest rates has been much slower to develop in practice than in theory, creating a time lag which very often makes control of short-term rates ineffective or reflects only a partial adjustment to changes in that sector.

Mr. Martin, the Reserve Board Chairman has, on the other hand, been a past opponent of any deviation from "bills only". In the light of recent developments, however, he has publicly given his full support to the policy change to nudge long term rates downward, although admittedly he remains uncertain of its success. The presence of Mr. Robert Roosa, a former Vice President of the New York Federal Reserve Bank, as Undersecretary of the Treasury, probably helped to gain easier acceptance for the plan. **In any event, the innovation is not comparable to the "pegging" of Government bonds at par or above from World War II until the 1951 "accord". During that period, the Fed actually lost control over the creation of reserves and credit expansion. In addition, the new policy was not completely unexpected, as Fed purchases had already been shifted into intermediate maturities in the fall of 1960 to relieve the pressure upon short-term interest rates, in view of our balance of payments difficulties.**

Problem of Serving Somewhat Conflicting Objectives

The main reasons for the change were described

in the official statement, as the recessionary domestic economy and the unfavorable U.S. payments imbalance. This combination made it necessary for the Fed to introduce some change in operational techniques. **Long-term interest rate reductions were required for an attempt to help stimulate building and other capital expenditures by corporations, as anti-recession measures. But a further drop in short term interest rates would accelerate the outflow of short-term funds, cause a resultant continuing drain of gold, and adversely affect the international position of the dollar. To solve this apparent dilemma, a policy of "selective easy money" was necessitated.**

The Federal Reserve is very cognizant of the fact that any decrease in long-term rates will not in itself cause a business upturn, that a massive-type intervention would be not at all desirable and that some investors might even turn to the short-term market if long term rates became unfavorable enough, thus partially cancelling out the policy aims.

The Fed does not wish to shape, control or "peg" the long term market in Government bonds, but rather to try to "nudge" interest rates in this sector downward.

What Has Been Done . . . . With What Effects?

Fortunately, these events have not occurred in a vacuum and other forces, both national and international, have somewhat alleviated the Fed's dilemma.

Buying operations in the long-term area were very limited in the first two weeks after the policy revision was announced, but long term yields did begin to show a decline. This result perhaps demonstrated that it was not so much the actual magnitude of intervention as the basic Fed policy shift itself which was important.

● With increasingly larger purchases in the following few weeks (but still limited when compared with the bill market, which continues to account for the great bulk of trading in Treasury issues), there was paradoxically less of an effect on yields. ● At the same time, certain signs suggested that the recession at home was approaching or had already reached its low point, while short-term interest rates abroad were generally declining. ● Our gold stock increased for two consecutive weeks after having held steady for two previous weeks. ● More indications of international monetary cooperation were supplied by the European central banks, including support for sterling and the dollar following large-scale speculative movements in currency markets as a consequence of the revaluation of the German mark.

All this helped to take some pressure off the Federal Reserve in its tight-rope act. But the "anticipation factor" was still a source of concern, as the reaction of long-term bondholders and dealers concerning future Fed moves in the long-term area was one of "let's wait and see".

Then, in a surprise move, the Treasury undertook a new advance refunding operation, in an attempt to stretch out the debt maturity structure.

This was in apparent conflict with the desire to push long-term rates downward, since higher interest rates were offered to those who would convert obligations due in 1962 and 1963 into 1966 and 1967 maturities.

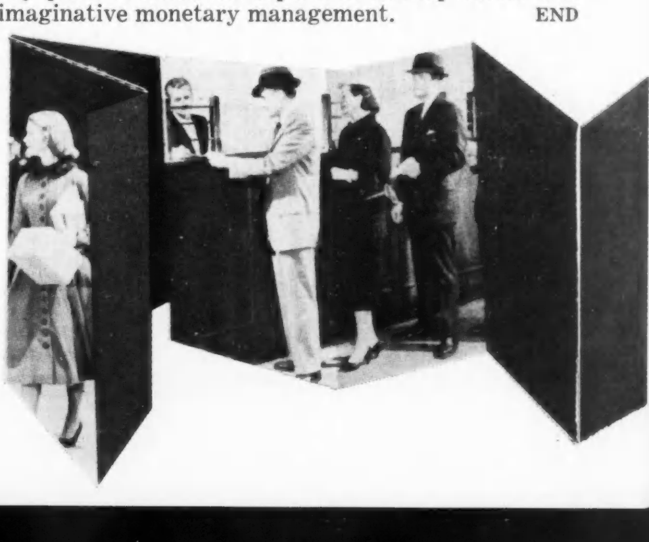
It was also theoretically a questionable action to take in a recession period. The financial community looked for a rather unfavorable reception, generally agreeing that if $3 or $4 billion of the $19.4 billion offered for exchange were taken up, the operation could be considered a success. But over $6 billion were subscribed, exceeding the most optimistic estimates.

The effects of this shift into longer maturity securities upon bond prices and on future Fed purchases of long and intermediate issues are as yet uncertain, but such results do give more leeway for coming fiscal and monetary operations.

Appraisal of the Federal Reserve and Treasury Actions

Both the departure from "bills only" and the unexpected timing of the advance refunding reflect a change in official thinking, leaning towards new techniques and adaptations to new situations as they arise. Experimentation will almost inevitably lead to some mistakes, but valuable experience will be gained—and it will be difficult to engage in any appreciable speculative operations in Government securities in such an atmosphere. New signs of full cooperation between the Treasury and Federal Reserve are encouraging and should help to ease the task of both. As the international payments position and the domestic business situation improve, policies will again be changed in accordance with the needs of the day. Short-range success, however, does not obviate longer-run problems, which will persist in many areas. Favorable developments will at least make further long-term interventions by the Fed less necessary and delay the problem of the possible troublesome effects of a drop in the long term bond market after the Fed had made substantial purchases of such issues.

But the 4¼% limit on long term Government securities remains as a deterrent to stretching out the debt in future periods of good business, and should be removed. More emphasis will have to be placed on the accumulation of budget surpluses during upswings in the economy to allow for deficits in recession times and for the institution of a real debt management policy. Monetary actions of the Federal Reserve cannot be effective enough, both during booms and economic downturns, without a disciplined budgetary policy and perhaps widening of the powers of the Federal Reserve itself. But the recent indications of flexibility and cooperation on the part of both the Federal Reserve and the Treasury point towards an expansion of responsible and imaginative monetary management. END



New Market Inflation Ahead?

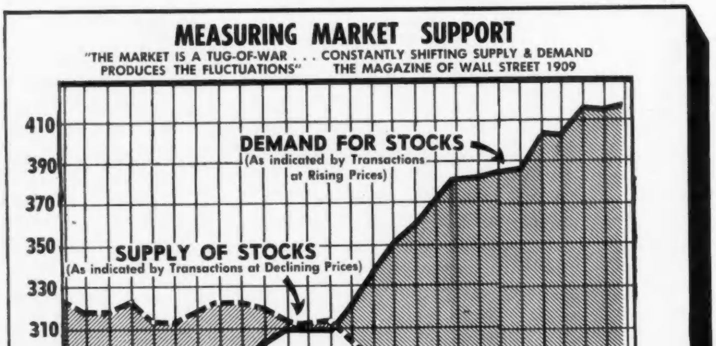
Stock prices continue to reflect investment optimism and enthusiastic speculation, discounting expected gains in corporate earnings further and further ahead. Growing excess in valuations cannot run on indefinitely, but positive top-out evidence is still absent. A carefully selective policy is advised.

By A. T. MILLER

THE occasional interruptions in the market's uptrend from the lows of last October remain slight and brief so far. The latest one—a mere four-day dip (March 23-28) of 9.80 points by the Industrial Average—was ascribed to uncertainty about developments in Laos but could have been justified on technical grounds alone, following a further market spurt running into the third week of March.

As we go to press, the outcome in Laos remains unclear, with Russian diplomatic maneuvering indicated while Communist miltary action has continued. But the market, hopeful about everything, assumes some kind of "peaceful" solution. If so, renewed strength in stock prices, developing for a time last week, could go further.

Gains over the past fortnight were nominal for the industrial and rail lists, sizable for utilities. A spurt by industrials last Wednesday virtually petered out Thursday, with approach of the three-day holiday making for trading caution. The industrial average closed a little under, rails materially under, the March 22 recovery levels.



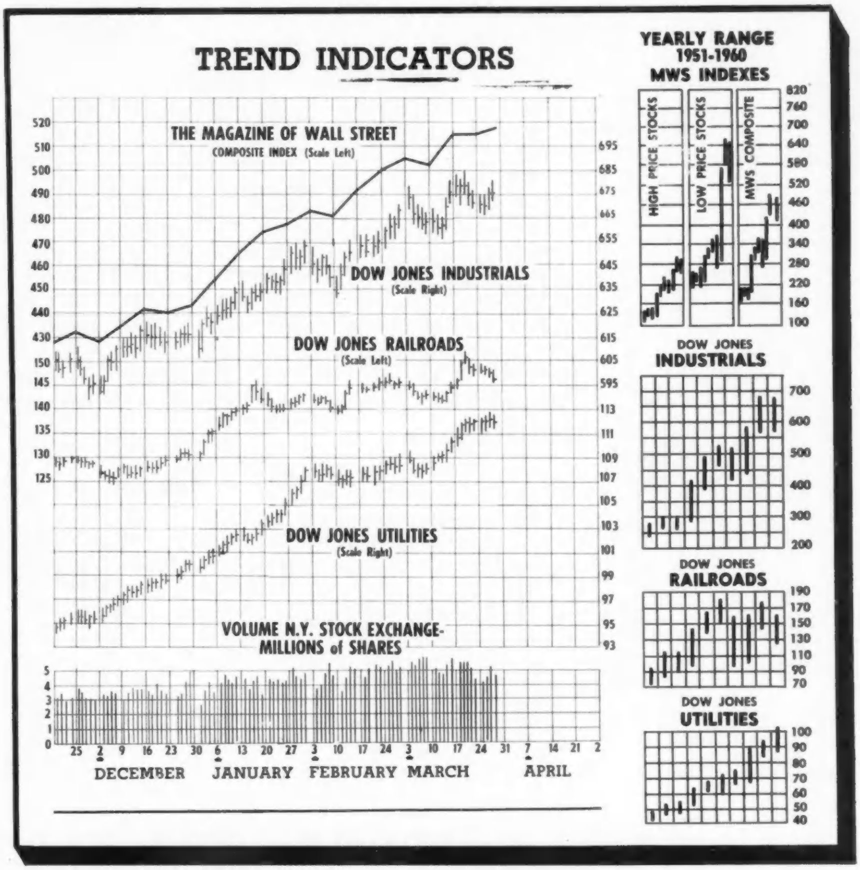
Comparatively few individual stocks show conspicuous weakness at this time; many more are in new high ground for the year or longer. The latter include virtually all groups: investment-grade income stocks, cylical stocks, growth stocks and even speculative cats and dogs. While secondary stocks predominate in the daily list of the 15 most active issues, this is usually so in a market in which more and more people are trying for capital gains. Increasing speculative tendencies will bear watching but do not yet suggest a blow-off.

Hopes Versus Realities

There is continuing high confidence that business revival is near—wthout much conjecture at this stage as to its possible vigor. There is continuing expectation of more "creeping inflation" ahead, reluctance of the average investor to take profits on satisfactory stock holdings because of the substantial tax liability, lack of popular appeal for bonds and preferred stocks in view of relatively unsatisfactory postwar experience with fixed-income securities, and accumulation of investment funds seeking employment.

All of this would seem, on superficial examination, to provide a basis for indefinite appreciation in common stocks. **But the more realistic view is that (1)**

much of the market's allure for the public is founded not on sober reasoning but simply on the itch, created by persistent upward tendencies, to make a fast buck; (2) that the market for some years has been largely outrunning both corporate earnings, on which stock values must be based in the final analysis, and depreciation in the value of the dollar; and (3) that potentals as to both future earnings and future inflation are probably a good deal less dynamic than the market is now expecting.**



In short, "confidence" in the longer-term future really appears to have become, or to be verging on, over-confidence—a psychological phenomenon familiar at every advanced market level in the past. We have stated before, and repeat, that much more inflation has occurred in stock prices than in most other areas in the economy. That being so, the question becomes: How much more stock market inflation is ahead? Nobody can give a definite answer, but **every experienced investor should know that it must have a limit, that stock prices cannot indefinitely outrun earnings and dividends, and that further rise must necessarily add to risks.**

Whether you look back ten years or five years, the rise in corporate earnings as a whole has been relatively limited, contrasting with a major rise in stock prices. Following the filling of the initial postwar shortages, each business expansion cycle has become more sluggish than the preceeding one—with the early-1960 peak in industrial production less than 9% above the best 1957 level. The uptrend from the 1958 recession lifted corporate profits in 1959 to a new peak of $23.8 billion, but that was a gain of less than 1.3% over 1956 as compared with an advance of about 5% for industrial production; and it was less than 5% above profits as far back as 1950, which compares with a 1950-1959 rise of 40% in industrial activity. **In short: more volume over the years, less and less profit per dollar of sales.**

Is there now some change in the picture to suggest that the incipient recovery will be vigorous instead of irregular, that in earnings dynamic rather than restricted? If so, we are unable to see it. All indications still point to restricted potentials in capital goods because of excess capacity in many lines—and meanwhile the Administration seems to be dragging its feet as regards stimulative action on depreciation allowances, although the President's forthcoming tax message may propose some tax credits for capital expansion.

All indications still point to fair recovery—but no boom—in demand for automobiles and home appliances. Regardless of the Government's deficit spending, supply-demand factors throughout the economy can be expected to keep the brakes on prices of materials and finished goods; and to keep business facing intense competition.

Meanwhile, the recession may have bottomed in March. Some improvement has been reported in manufacturers' sales and new orders in durable goods, and in housing starts. Car sales and steel activity are up a bit, department store sales (adjusted) roughly 3% ahead of a year ago. Probably there will be a full recovery, plus a bit more, by 1962. Market sentiment is far ahead of it and geared to a boom in profits.

Conservative Republicans take a dim view—brokers a non-political bullish view—of the New Frontier spending. How inflationary is it? The "liberals" say Kennedy's thinking is too orthodox. They have a point. The deficits forecast for this year and next foot up to a two-year total of roughly $5 billion, whereas the Eisenhower deficit in one year (fiscal 1959) was $12.4 billion. (Of course, the presently projected Kennedy deficits may turn out to be considerably underestimated.) In a slack economy, moderate deficit spending will not greatly affect business, prices or profits. But investors and traders apparently are not yet ready to take off the rose-colored glasses.—Monday, April 3.

SOPHISTICATED STUDY OF KENNEDY'S "DOUBLE-BARRELED" BUDGET

Discloses Important Shift in Fiscal Policy

— ITEM-BY-ITEM BREAKDOWN

By MALCOLM STEWART

PRESIDENT KENNEDY now has fired both barrels on the Budget front with the release of his revised estimates for non-defense spending for fiscal 1962 and disclosure of the increased defense outlay contemplated for that period.

As the smoke clears away it is possible to discern somewhat more clearly the shape of the fiscal and economic theories guiding the new Administration.

The immediate prospects are readily apparent: for fiscal 1962 the new Kennedy estimate is for an overall Budget deficit of $2.9 billion in place of the $1.4 billion surplus which President Eisenhower estimated for the period when he submitted his Budget in January. Many experts considered Eisenhower's estimates to be unduly optimistic, but they did not anticipate a deficit of the size now predicted.

Kennedy disclaims any responsibility for the red ink. He asserts that all the programs he has recommended are geared to revenue estimates or are "accompanied by their own self-financing provisions." This doesn't seem to be entirely accurate.

The new President claims that Eisenhower over-estimated revenues, under-estimated expenses and failed to ask for defense funds sufficient to provide adequate National Defense. But careful inspection of Kennedy's Budget revisions indicates that he, too, may be guilty of some erroneous assumptions regarding both revenues and expenses.

Be that as it may, and defense spending aside, Kennedy is hiking civilian spending $2.5 billion over the figure proposed by Eisenhower. The overall Budget deficit of $2.9 billion may actually be an under-estimate if Kennedy's expectations of a $900 million increase in government revenue from anticipated business recovery fail to be realized.

Kennedy's first Budget, while disclosing no particularly radical approach to fiscal matters, nevertheless makes it clear that he and his advisors are dedicated to a greater amount of government manipulation to affect the economy than were their immediate predecessors.

Kennedy's Five Basic Principles

The President himself, when he sent his revised Budget figures to the Congress March 24, set forth the fundamentals of his approach to the subject.

SPENDING ESTIMATES—KENNEDY VERSUS EISENHOWER

The following table compares the estimates of President Kennedy and former President Eisenhower on Government spending in the current fiscal year—ending June 30, 1961—and the following fiscal year, 1962.

(Millions of Dollars)

	1961 Eisenhower Estimate	1961 Kennedy Estimate	1962 Eisenhower Estimate	1962 Kennedy Estimate
Legislative branch and the Judiciary	$ 208	$ 200	$ 203	$ 207
Executive office of the President	61	72	92	92
Funds appropriated to the President:				
Mutual security — economic	1,675	1,725	1,875	1,875
Other	43	53	75	175
Independent offices:				
Atomic Energy Commission	2,660	2,660	2,680	2,670
Export-Import Bank	— 100	— 50	— 4	— 4
Federal Aviation Agency	640	630	730	743
National Aeronautics and Space Adm.	770	720	965	1,050
Veterans Administration	5,314	5,400	5,369	5,404
Other	770	759	676	704
General Services Administration	442	420	496	498
Housing and Home Finance Agency	544	525	728	942
Dept. of Agriculture	5,739	5,807	5,782	6,440
Dept. of Commerce	511	511	566	614
Dept. of Defense — military:				
Military functions	41,500	42,500	42,910	43,800
Military assistance	1,700	1,500	1,750	1,650
Dept. of Defense — civil	986	1,015	984	1,021
Dept. of Health, Education and Welfare	3,716	3,744	4,005	4,798
Dept. of the Interior	785	785	873	906
Dept. of Justice	285	285	294	296
Dept. of Labor	295	892	223	654
Post Office Department	786	926	63	63
Department of State	260	260	345	351
Treasury Department:				
Interest	8,993	8,993	8,593	8,693
Other	965	965	1,095	1,120
District of Columbia	48	42	66	66
Allowance for contingencies	25	25	100	100
Subtotal	$79,621	$81,369	$81,532	$84,926
Deduct interfund transactions	676	676	667	667
Total	$78,945	$80,693	$80,865	$84,259

Here are the "basic principles" he enunciated in his first Budget message:

► 1. **Spending "must be adequate to meet effectively and efficiently those essential needs of the nation which require public support** . . . we can afford to do what must be done, publicly and privately up to the limit of our economic capacity—a limit we have not even approached for several years".

► 2. **"Apart from any threat to the National Security", the Federal Budget should be in balance over the business cycle, with deficits during slumps offset by surpluses in years of prosperity.**

► 3. **Budget policy "should contribute to economic growth and maximum employment within a reasonable setting of price stability".**

► 4. **"We will not waste our resources on inefficient or undesirable expenditures simply because the economy is slack**—nor, in order to run a surplus, will we deny our people essential services or security simply because the economy is prosperous".

► 5. **As the nation grows, so will Federal non-defense outlays. "But we must not allow expenditures to rise of their own momentum** . . . it is my determined purpose to be a prudent steward of the public funds—to obtain a dollar's worth of results for every dollar we spend.

Heaviest Increase in Civilian Budget

Although the foregoing remarks are generalized there seem to be numerous echoes of the late John Maynard Keynes among them. Some fiscal sleight-of-hand is certainly involved in submitting two budgets within four days—the general revisions supplied March 24 and the increased defense figures disclosed March 28.

This procedure could leave in the mind of the average reader, whose examination of the details is bound to be rather cursory, the impression that increased defense spending is almost solely to blame for the steady budget increases. It tends to submerge the fact that the major portion of the increase in fiscal 1962 will go for non-defense spending.

Actually, defense spending for fiscal 1962 will not be much greater than it was for fiscal 1954. *But since fiscal 1954, budget outlays for (domestic) benefits have climbed 78 per cent with the principal increases coming in governmental services flowing to the public under the functions of commerce, housing, space, agriculture, labor and welfare, natural resources and veterans' benefits. Benefits of one sort or another have expanded from 17 per cent of the total budget to 26 per cent at present.* It is obvious that Kennedy does not intend to reverse this trend and most certainly his initial submission indicates he will accelerate it considerably.

Taking into account Kennedy's revised non-defense figures, submitted March 24, and his defense estimates, sent to Congress four days later, this is the way his overall Budget for fiscal 1962 stacks up against that proposed by Eisenhower in January, just before he left office:

	Eisenhower	*Kennedy*	*Change*
	(in billions of dollars)		
Receipts	$82.3	$81.4	—$0.9
Expenditures:			
Civilian	38.0	40.5	+ 2.5
Military	42.9	43.8	+ 0.9
Total	80.9	84.3	+ 3.4
Balance	$1.4 *Surplus*	$2.9 *Deficit*	—$4.3

Blames Eisenhower's Faulty Estimates

The proposed increase in defense spending has

received most of the attention so far. It makes better newspaper copy and can be translated graphically into numbers of new missiles and other weapons. The non-defense items are less spectacular and boosts in these have not been so well-publicized. The best way to understand what is happening and why is, however, to take matters chronologically, considering first the revised Budget, exclusive of defense boosts, submitted March 24, and then discussing the defense message and Budget sent up March 28.

The Budget revisions of March 24 showed a $2.5 billion increase over Eisenhower's figures in the civilian spending program envisioned by Kennedy. Kennedy thus figured that the government would run $2.0 billion in the red on non-defense items alone in fiscal 1962.

Then on March 28, in his defense Budget, he proposed spending $650 million more than Eisenhower had suggested and said that to this must be added "under-estimates" of about $235 million in the former President's figures. This raised the fiscal 1962 defense boost to about $900 million.

Added to the deficit resulting from civilian increases, $2.0 billion, this raised the total anticipated deficit for fiscal 1962 to $2.9 billion.

With respect to the increased civilian spending Budget, Kennedy denied any responsibility for the resulting deficit, despite his proposed boosts for farm programs, education, housing and unemployment benefits. Instead, he blamed what he called Eisenhower's too rosy estimates of Federal revenues, which he said stemmed from "overly optimistic economic assumptions" that were destroyed in great part by the recession. The same conditions are held responsible by Kennedy for the fact that the current fiscal year is now expected to show a deficit of $2.2 billion as against Eisenhower's one-time anticipation of a surplus of $100 million.

Tax Reduction Prospects Dim

The President left open the possibility that he might ask Congress for a temporary anti-recession tax cut. But as his economists have begun to issue cautious predictions of a business upturn, chances for such a tax reduction have dropped to near zero. He did, in his March 24 message, urge Congress to continue corporate and excise taxes at their present rates instead of letting them decline or terminate as scheduled on July 1. However, he promised other tax proposals later to stimulate business investment "and achieve greater tax equity".

Major Increases in Civilian Programs

Following are some of the major increases proposed by Kennedy in the Eisenhower Budget:

► **Farm supports**—increased $478 million. Kennedy said the Eisenhower budget was based on the assumption that all price supports would be cut, something Congress would "never permit".

► **Education**—up $530 million, including $500 million in grants for elementary and secondary schools. Kennedy explained that while Eisenhower had recommended a program of limited school construction, the former President had budgeted virtually no funds for this purpose.

► **Unemployment benefits**—$440 million for extension of payments to unemployed workers who have used up their benefits. This is an entirely new item. Eisenhower had made no such proposal.

► **Veterans' disability benefits and direct housing loans**—up $95 million.

► **Housing**—an increase of $214 million.

► **Civilian space agency**—up $85 million.

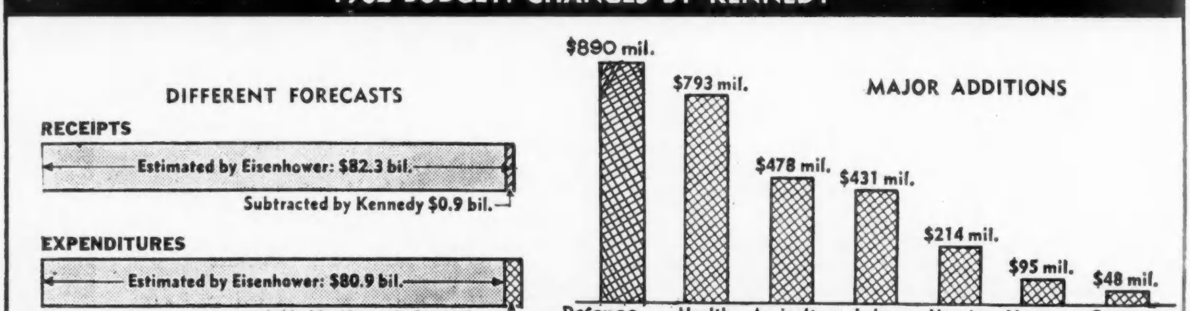
Kennedy also endorsed Eisenhower's request for Congress to raise postal rates by $843 million per year to put the post office on a self-supporting basis. This would mean an increase of one cent in the letter rates and sharply higher fees for second and third class mail. Kennedy's Budget figures reflected the assumption that Congress would raise these rates, which it failed to do for Eisenhower.

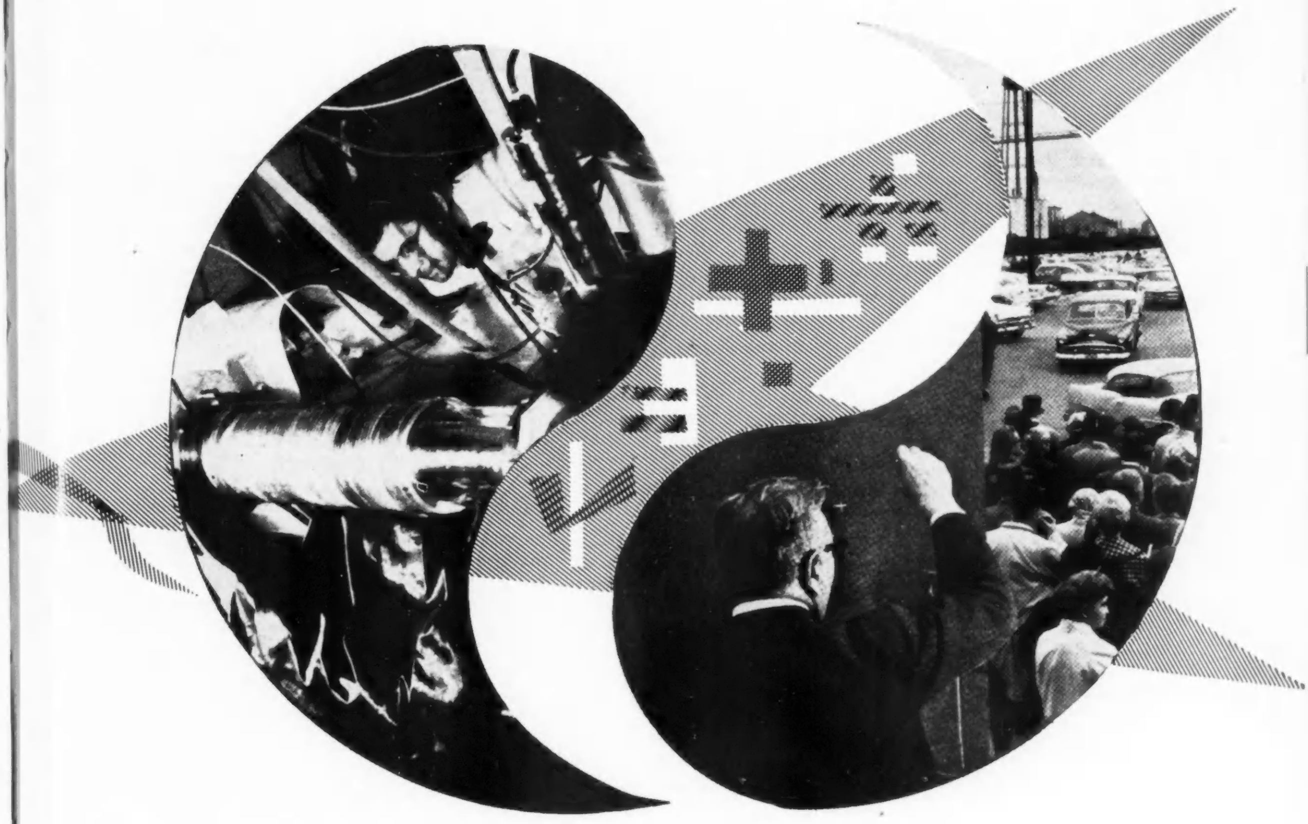
Kennedy renewed his request that Congress provide more funds for tax enforcement to "increase the collection of Federal revenues and help curb corruption in and out of government, racketeering and organized crime".

New Debt Limit Hike Proposed

The President said he would ask Congress in early May to increase the ceiling on the national debt, which is temporarily permitted at the $293 billion level but scheduled to drop back to the "permanent" level of $285 billion on July 1. Borrowing to cover the fiscal 1961 and 1962 deficits is now expected to raise the national debt to $287 billion by next July and to at least $289 billion by July 1962. This is in spite of $900 million in receipts which Kennedy expects to be generated by his own spending program. *(Please turn to page 110)*

1962 BUDGET: CHANGES BY KENNEDY





What's behind the CURRENT CROP OF MERGERS and the Companies Involved?

By WARD GATES

► **Corporations with large cash positions seeking profitable diversification — or desirable manufacturing facilities — assurance of defense contracts — ready-made marketing organizations — strengthening of the business base**

► **Covering 17 major '61 mergers, including 39 companies — plus proposed mergers — those likely to be realized — those that will not**

WITH the approach of spring, the traditional season for weddings, the banns are again being posted across the land heralding the impending or intended union of various corporations in connubial bliss. Suitor corporations are wooing a wide variety of both shy and eager maidens despite the scornful opposition of Uncle Sam's Justice Department, which reminds one of an outraged father attempting to protect his multitudinous daughters from ardent swains while armed with nothing more formidable than a sling shot. A few suitors may get stung, but most will make off with their prizes.

Witness just the recent record. The Department successfully broke the engagement of **Minnesota Mining** and **Warner-Lambert,** and has also brought **American-Marietta** before the bar, seeking an annulment of some of its previous unions, but many more matches are being consummated. The accompanying table lists seventeen recent converts to wedded bliss, and scores more are either in the hands of matchmakers or have progressed far enough for a wedding date to be set.

Reasons for Merger: Large Cash Positions

Obviously, American corporations are not quaking at the government's admonitions to merge at their own risk. The reasons, of course, are that the advantages of merger far outweigh any punishment the government can hand out for transgression, even if it obtains the backing of the courts.

What are the reasons? Several, of course, that vary in importance with specific circumstances. Thus, without attempting to rank them they can be cited individually.

First, and perhaps most important, is the enormous free cash that domestic corporations have been generating in recent years.

Reynolds Tobacco, a former suitor of **Warner-Lambert** is now generating cash, free of all incumbrances and after payment of dividends of approximately $45 million a year. This is money that apparently cannot be invested profitably in the cigarette industry because Reynolds already has all the capacity it needs.

What should the company do? If it pays all of this money out to shareholders it will be unable to take advantage of tempting investment opportunities when they are presented. Furthermore, the rate of profit has been declining in the tobacco industry, making it necessary to invest this money elsewhere so that it can increase the overall return to shareholders in the years ahead. Hence, it is casting about with a covetous eye, looking for companies that promise a high return on invested capital because of the more dynamic nature of their business.

Scores of others are in the same boat. **Freeport Sulphur** has about $50 million in cash actively seeking investment in natural resources industries other than sulphur; **American Metals** would like to gain a foothold in other metals to supplement its successful merger with **Climax Molybdenum;** and **Ingersoll-Rand,** with one of the healthiest cash positions in heavy industry, is finally thinking of putting its reserves to more active work than the simple collection of interest from government bonds.

Cash-rich companies, of course, have always sought investment outlets, but usually in the past they pulled in their horns during recessionary periods. Now, however, corporate liquidity is so strong despite the economic setback of the last twelve months, that companies are actually seeking to plug weaknesses exposed by the recession by taking over other enterprises. How strong this force is can be seen in the statistics. Merger activity usually falls off during business declines, but the Federal Trade Commission lists more proposed mergers for 1960 than in both 1958 and 1959. And the list is growing rapidly in the first half of 1961.

Qualification for Prime Defense Contracts

Excess cash is only one of the major reasons for merging these days, however. Another important

Recent Mergers and Acquisitions

Name of Company	Type of Business	Date Effective or Announced 1961	1960 Net Sales (Millions)	1960 Net Earnings (Millions)	Terms of Exchange for Merger or Acquisition
*American Hospital Supply Corp.	Largest hospital supply distributor.		$100.6	$4.2	
Midwest Dental Mfg. Co.	Dental supplies.		N.A.	N.A.	Exchange of stock.
Bruck's Nurses Outfitting Co.	Nursing uniforms and supplies.	Jan. 13	N.A.	N.A.	Exchange of stock.
*American Machine & Foundry	Bowling, industrial machinery.		246.0[2]	16.4[2]	
Paragon Electric Co.	Electrical products and controls.	Jan. 27	N.A.	N.A.	Exchange of stock.
*American Marietta Co.	Paint, resins, building and other products.		268.0[2]	17.9[2]	
Duro Fittings Co.	Electrical fittings.	Jan. 20	N.A.	N.A.	Undisclosed amount of cash and stock.
Manley Sand Co.	Sand deposits.	Jan. 30	N.A.	N.A.	$4.8 million cash and securities.
*Associated Dry Goods Corp.	Operates large department store chain.		193.4[2]	9.1[2]	
H. & S. Pogue Co.	Department store.	Mar. 21	N.A.	N.A.	Terms not disclosed.
*Borden Co.	Second largest in dairy industry.		956.0	26.8	
Hawley-Monk Co.	Inks, varnishes and related materials.		N.A.	N.A.	Terms not disclosed.
*Brunswick Corp.	Bowling, schools and other products.		359.8	38.0	
Massey Surgical Supply, Inc.	Surgical supplies.	Feb. 21	N.A.	N.A.	Undisclosed number of Brunswick shares.
*Campbell Soup Co.	Soup and other food products.		516.1	39.8	
Pepperidge Farm, Inc.	Bakery products.	Nov. 17/60	N.A.	N.A.	Exchange 357,413 shares for all Pepperidge stock.
*Chance Vought Corp.	A major supplier of Navy planes.		169.7[2]	2.7[2]	
Harbor Boat Building Co.	Shipbuilding repair, containers.	Mar. 15	N.A.	N.A.	Undisclosed amount of stock.
Harco Engineering Co.	Marine and electronics engineering.	Mar. 15	N.A.	N.A.	Undisclosed amount of stock.
*Cluett Peabody & Co.	Men's wear, expanding lines.		112.3	4.9	
Boyd-Richardson Co.	Specialty clothing stores.	Feb. 23	N.A.	N.A.	Exchange of shares.
*Coca-Cola Co.	Mfg. Coca-Cola beverage; other products.		501.9	39.3	
Minute Maid Co.	Citrus and other soft drinks.	Dec. 21/60	N.A.	N.A.	1 share Coca-Cola for 2⅔10 sh. Minute Maid.

*—Surviving Corp.
N.A.—Not available.
d—Deficit.

1—11 months.
2—9 months.

Recent Mergers and Acquisitions—Continued

Name of Company	Type of Business	Date Effective or Announced 1961	1960 Net Sales (Millions)	1960 Net Earnings (Millions)	Terms of Exchange for Merger or Acquisition
*Dow Chemical Co.	Major chemical and drug mfg.		781.4	82.4	
Allied Laboratories, Inc.	Pharmaceuticals and biologicals.	Dec. 30/60	N.A.	N.A.	⅔ sh. of Dow for 1 Allied stock.
*General Instrument	Semi-conductors; electronic equip.		N.A.	N.A.	
Pyramid Electric Co.	Elect. engineering.	Mar. 13	N.A.	N.A.	1 Gen. Instru. sh. for each 17½ Pyramid.
*Hammond Organ Co.	Portable electric organs.		N.A.	4.0[2]	
Gibbs Mfg. & Research Corp.	Electronics company.	Mar. 1	N.A.	N.A.	Acquired for approx. $1.6 million of Hammond stock.
*Litton Industries, Inc.	Electronic equipment and components.		187.7	7.4	
A. Kimball Co.	Former subsidiary of United Shoe Machintry.	Jan. 31	N.A.	N.A.	No details disclosed.
Hopkins Engineering Co.	Microminiature capacitors and radio interference filters.	Mar. 1	1.5	N.A.	Undisclosed amount of Litton stock.
*Nat. Distillers & Chemical Corp.	Liquor products; chemicals.				
Bridgeport Brass Co.	Fabricator of copper and brass mill products.	Jan. 30	N.A.	N.A.	2,050,000 shs. Nat. Dist. for 1,518,498 Bridgeport stock.
Federal Chemical Co.	Fertilizer.	Jan. 24	N.A.	N.A.	Purchase price not disclosed.
*United Air Lines, Inc.	Second largest U.S. airline.		379.1	6.6	
Capital Airlines, Inc.	Operating area mainly east of the Mississippi.	N.A.	96.4[1]	d 9.1[1]	Each 7 shs. of Capital would receive 1 sh. of United plus warrant to buy 1½ shares United Airlines at $40/sh. Other provisions for British interests.
*White Motor Co.	Truck mfg.		282.7	8.8	
Oliver Corp.	Acquired farm equipment business of Oliver Corp.	Nov. 1960	N.A.	N.A.	655,000 shs. White Motor plus cash.

*—Surviving Corp.
N.A.—Not available.
d—Deficit.
1—11 months.
2—9 months.

one is closely related to national defense. Small companies can usually qualify only for subcontracts; the prime contracts are saved for the big fellows. Many smaller contractors are accordingly seeking expansion to the point where they also can qualify for prime contract status. **Ling-Temco** hasn't made clear its motives in seeking control of **Chance-Vought,** but certainly the latter's standing as a prime contractor in the aircraft field must be one of the inducements. Similarly, **Martin Company,** already a prime contractor, is probably seeking to broaden its contract status in the computer and electronic field by wooing **General Precision Equipment Corporation.** Martin apparently wants to broaden its defense business enough to qualify for prime contracts on complete weapons systems.

"Circular Integration"

In addition to excess cash and defense ambitions there are the traditional reasons for merger. And many of the current proposed or recently effected combinations fall within conventional molds. One dominant motive, for example, has always been the broadening of a company's sales base by taking on established product lines.

Campbell Soup's recent acquisition of **Pepperidge Farm** falls easily within this category. Campbell, the major independent producer of packaged soups, has enjoyed amazing success in that field. However, it apparently recognizes that the distribution channels which give prime space to its soup lines can also be successfully used to merchandise a broader line of products. The process of using the same channels of distribution for several products is known as "Circular Integration", and is among the most difficult for the Justice Department to challenge as a monopolistic practice. It is hard to demonstrate, for example, that a company can exercise monopolistic control over soup because it also sells bread.

On the other hand, **American Hospital Supply,** which recently acquired Midwest Dental Mfg. Co., and Binck's Nurses Outfitting Co., may have no such clear cut immunity. The Justice Department, in its crazy-quilt pattern of interpretation of recent years, could conceivably take a dim view of the company's attempts to solidify its position as a supplier of all kinds of *(Please turn to page 101)*

A New Feature

Number Three...

A First-Hand Report on...

SHIFTS IN 1961 DEFENSE EXPENDITURES

—And who will get the orders

By JEROME ELSWIT

PRESIDENT Kennedy has churned up the defense procurement picture to a fare-thee-well, and in the process has illustrated once again the fickleness of the military contracts business. The changes in the Eisenhower fiscal 1962 defense budget requested by Mr. Kennedy do not look tremendous against a $43 billion program—$2.7 billion in increased appropriations, $430 million in reductions—but they have very significant implications for the companies involved, both in terms of future prospects and of current income.

Besides, the President makes it clear that this is only the beginning of the reshaping of the defense program. He realizes that a complete reappraisal will take many more months, and consequently "only the most urgent and obvious recommendations" for changes have been made.

►With the aid of some dexterous bookkeeping, it is made to appear that the recommended changes themselves will generate additional spending of only $650 million over the Eisenhower recommendations. This is for the benefit of the economy-minded. The rest of the $890 million in increased expenditures is made up largely of a suddenly-discovered "underestimate" by the Eisenhower Administration in the spending rate for the next fiscal year.

►In like manner, the current year's spending figure has been fattened with $743 million in "underestimates", plus $214 million more as a result of accelerated procurement ordered last month to aid the economy. The upshot will be defense spending of $42.5 billion for the year ending June 30, instead of $41.5 billion as previously estimated.

►Spread as they are over the entire military spectrum—strategic, tactical, space, air defense, etc.—the Kennedy budget changes affect directly a great number of contractors. This factor helps to cushion the blow for some who now find themselves with major projects cancelled or cut back, but are fortunate enough to be participating in others that have been blessed with increases.

Department of Defense

NEW OBLIGATIONAL AUTHORITY, DIRECT OBLIGATIONS AND EXPENDITURES

Fiscal Years 1960-1962

(Millions of Dollars)

	New Obligational Authority			Direct Obligations			Expenditures		
	FY 1960	FY 1961	FY 1962	FY 1960	FY 1961	FY 1962	FY 1960	FY 1961	FY 1962
MILITARY FUNCTIONS									
Military Personnel	12,026	12,236	12,484	11,934	12,218	12,484	11,738	12,253	12,456
Active Forces	a10,637	a10,770	a10,922	10,582	10,768	10,922	10,390	10,808	10,893
Reserve Forces	674	677	611	659	660	611	654	660	614
Retired Pay	715	790	951	693	790	951	694	785	949
Operation and Maintenance	10,317	10,714	11,040	10,243	10,728	11,040	10,223	10,438	10,803
Procurement	13,105	13,501	14,969	12,732	16,134	15,286	14,312	14,311	14,862
Aircraft	6,124	5,293	5,062	5,397	6,786	5,594	6,487	6,019	6,104
Missiles	3,240	3,520	3,962	3,474	4,107	4,014	3,790	4,157	4,175
Ships	1,140	2,294	2,915	1,473	2,461	2,551	1,744	1,727	1,921
Other	2,602	2,394	3,029	2,389	2,780	3,127	2,292	2,409	2,662
Research, Development, Test, and Evaluat.	4,216	4,255	4,725	3,967	4,673	4,747	3,732	4,276	4,672
Military Construction	1,364	1,000	1,026	1,350	1,359	1,179	1,626	1,535	1,247
Active Forces	1,291	945	976	1,294	1,282	1,121	1,569	1,473	1,178
Reserve Forces	73	55	50	56	77	58	56	62	69
Revolving and Management Funds	30	30	20	—	—	—	—416	—313	—239
Sub-total	41,058	41,737	44,264	40,225	45,112	44,736	41,215	42,500	43,800
Available by transfer of prior year balances	—430	—366	—470						
TOTAL, MILITARY FUNCTIONS	40,628	41,371	43,794	40,225	45,112	44,736	41,215	42,500	43,800

NOTES: (1) Includes effect of anticipated FY 1961 supplemental appropriations proposed for later transmission: Retired Pay, DOD $15 million; and Shipbuilding and Conversion, Navy, $48 million.

(2) Data are adjusted to reflect comparability with FY 1962 appropriation structure.

a—New obligational availability, including transfers of prior year balances.

How the Orders Stand

Douglas Aircraft Co. is a case in point. The Missileer aircraft, to be developed by Douglas for the Navy as the launching platform for the Eagle air defense missile, is being cancelled. The Missileer was already in trouble during formulation of the Eisenhower 1962 budget, but could have been continued with carry-over or reprogrammed funds. In effect the decision was left to the new administration, and that decision now is to end the whole Eagle/Missileer program.

But at the same time, the new Kennedy budget provides $50 million in new funds for the Skybolt air-launched ballistic missile, for which Douglas is prime contractor. **That $50 million is just what was sought for the Missileer.**

►The Air Force played its cards masterfully on Skybolt. The Eisenhower budget-makers turned down a request for $70 million in new money for Skybolt in fiscal 1962. But they agreed to let the Air Force fund the program over the two-year 1961-62 period at $150 million, using $80 million in 1961 appropriations and $70 million channelled from some still unidentified sources. It was left up to the Air Force to allocate the money any way it liked over the two years. Banking on Mr. Kennedy's predilection for this type of weapon, the Air Force programmed **as much as possible for use in fiscal 1961. About $50 million will be carried over to fiscal 1962, which combined with the additional $50 million now provided by the new budget, makes a hefty $100 million program next year.**

►Major subcontractors participating with Douglas are **Aerojet-General, Northrop,** and **General Electric.** Not as fortunate as Douglas in having another big contract in the plus column in the new budget is **Bendix Corp.,** prime contractor for the Eagle missile, with **Grumman Aircraft** and **Litton Industries among the subcontractors. Bendix does have the communications equipment for the Army's Advent communications satellite, which is down for a moderate increase in the Kennedy add-on. General Electric is developing the satellite itself and the electronics.**

►The Eagle/Missileer, if carried through to completion as planned by the Navy, would have been a multi-billion dollar program, which appalled the budgeteers in both Administrations. It was felt by some that, including the extensive air defense missile program of the Navy, fleet air defense was getting to cost more than the fleet itself.

Part of the justification given by the new defense team for cancelling the project, is the imminent development of a new type of tactical fighter plane with short takeoff and landing requirements, (as noted in our last report), for dual use by Air Force and Navy. **The new budget provides $45 million to get this program going.**

►Douglas can be expected to compete strongly

for this prize, along with **Boeing, Bell,** and a number of others. Aside from the Skybolt, however, Douglas has not been lucky recently. The Monday morning quarterbacks will long debate its failure at the last minute to win the billion-dollar CX-1 jet transport plum that went to **Lockheed.** It also lost out to Boeing after a vigorous race to see who would supply a modified commercial jet for use as a transport until the CX-1 (C-141) becomes available.

►The company is the major subcontractor to Western Electric (AT&T) for assembly of the Nike Zeus anti-missile system, and has had high hopes that the new Administration would order this weapon into production. **Mr. Kennedy, however, as did Mr. Eisenhower, is taking a rain check on Zeus, preferring to see the results of complete field testing before giving it the green light for production. There is still some $260 million in the 1962 budget for the system, unchanged by Mr. Kennedy, but much of this is for electronic equipment and test facilities.**

Orders For Planes

A striking example of the Las Vegas atmosphere surrounding the defense procurement business is the case of **North American Aviation's B-70 bomber.** The program for the three-times-the-speed-of-sound Valkyrie has been on again, off again, for a number of years. North American always managed to hang onto it—just by the skin of its teeth in December, 1959, when the project was emasculated to a mere test-bed experiment instead of a full weapons system. Then last fall, after considerable Congressional pressure, it was restored—as an election-time maneuver for the benefit of California, some Democrats charged—and it went into the Eisenhower budget for a whopping $358 million.

North American basked in the prospect of an eventual 100-plane, $2.7 billion program extending into the late 1960's. **Subcontracts across the length and breadth of the land that had been cancelled in 1959, for the numerous complex subsystems and components, were reinstated. Now Mr. Kennedy has partially lowered the boom again.**

The B-70 is reduced to $220 million in the 1962 budget; instead of 12 fully equipped test vehicles, a possible four stripped ones will be built; and Pentagon planners are talking of deciding after next year whether the program will continue at all.

The feeling is that the huge plane may be vulnerable to the type of air defense the Soviets may have by the mid-1960's, and that its contribution, in the missile age of that period, may not be sufficiently unique to warrant its huge expense. **General Electric will continue to develop the J93 engine and IBM the bomb/navigation system, but most other subcontracts will probably be cancelled again.**

►This will include **Westinghouse** on the defensive systems and **Motorola** on communications. The planners see a $1.4 billion "saving" in this approach over the next four years, but admit that time will have been lost in getting an operational plane if it is ever decided to go ahead with it.

►**North American,** of course, has other irons in the fire. But to companies like North American and Douglas, nothing really compares with a long production run on an airplane, and these are getting rarer and rarer. **North American is heavily involved in the guidance and reliability programs for the Minuteman missile, which is being accelerated, and in the submarine navigation program for the Polaris, as well as being probably the biggest supplier of rocket engines to the National Aeronautics and Space Administration.**

The Polaris program is by far the biggest beneficiary of the Kennedy budget changes, to the tune of $1.3 billion in new appropriations added to the $1 billion already in the Eisenhower budget. **Lockheed** is prime contractor for the missile, with Aerojet supplying propulsion and General Electric the guidance. Missile production is to be stepped up and development accelerated on the long-range (2,500 miles) A-3 version of the system.

►The bulk of the funds, however, will go for the **nuclear submarines** that launch Polaris. **General Dynamics** and **Newport News Shipbuilding** are expected to get the lion's share of the submarine contracts awarded to private yards—possibly five or more out of the 10—with **Westinghouse** supplying the nuclear reactors and **Sperry Rand** some of the navigation equipment. **The Navy has turned down a bid by Bethlehem Steel to bring its shipyards into the Polaris picture.**

►The **Minuteman program** is being favored with $96 million in additional funds under the new budget, making a total of about $1 billion for fiscal 1962. In addi-

Department of Defense
NEW OBLIGATIONAL AUTHORITY
FY 1962
(Millions of Dollars)

	Eisenhower Budget	New proposals	Kennedy Budget
MILITARY PERSONNEL	12,416	68	12,484
Active Forces	a10,879	43	a10,922
Reserve Forces	611	—	611
Retired Pay	926	25	951
OPERATION AND MAINTENANCE	10,842	198	11,040
PROCUREMENT	13,378	1,591	14,969
Aircraft	4,896	166	5,062
Missiles	3,816	146	3,962
Ships	1,825	1,090	2,915
Ordnance, Vehicles & Related Equip.	1,123	20	1,143
Electronics and Communications	1,102	99	1,201
Other	616	69	685
RESEARCH, DEVELOPMENT, TEST & EVALUATION	4,349	376	4,725
MILITARY CONSTRUCTION	985	41	1,026
Active Forces	935	41	976
Reserve Forces	50	—	50
REVOLVING AND MANAGEMENT FUNDS	20	—	20
TOTAL — NEW OBLIGATIONAL AVAILABILITY	41,990	2,274	44,264
Transfer from Working Capital Funds	— 150	— 320	— 470
TOTAL — NEW OBLIGATIONAL AUTHORITY	41,840	1,954	43,794

a—New Obligational Availability, including transfer of prior year balances.

MAJOR ADJUSTMENTS IN DEFENSE SPENDING AUTHORITY PROPOSED BY PRESIDENT KENNEDY

(Millions of dollars)

Program	Adjustment (from Eisenhower 1962 Budget)	Contractors
Polaris	+1,340.8	Lockheed, Aerojet; General Dynamics, Newport News Shipbuilding
Minuteman	+ 96.0	Boeing, Thiokol, Aerojet, Hercules Powder, North Amer.
Skybolt	+ 50.0	Douglas, Northrop, GE, Aerojet
Midas	+ 60.0	Lockheed, Aerojet
Dynasoar, Advent, Discoverer, Defender, others	+ 226.0	Boeing Martin; Bendix, GE; Lockheed, Bell; etc.
Expanded research on non-nuclear weapons	+ 122.0	Many
Transport aircraft	+ 172.2	Boeing; Lockheed
Amphibious transport vessel	+ 39.7	Ingalls
Navy ship modernization	+ 84.4	Many
Procurement of new weapons, support systems	+ 230.0	Many
Advanced tactical fighter	+ 45.0	Not yet announced
Modify F-105 aircraft	+ 24.6	Republic Aviation
Titan II cancellation (18)	— 100.0	Martin, Aerojet
B-70	— 138.0	North American Westinghouse; Lockheed; Chance Vought; IBM; Motorola
ANP (nuclear plane)	— 35.0	GE; Pratt & Whitney
Eagle/Missileer	— 57.7	Douglas; Bendix
Installation of Polaris on cruiser Long Beach	— 57.7	Lockheed

tion, there is another $70 million in Eisenhower "underestimates" that the Kennedy Administration is blanketing into the program next year. **Boeing** is prime contractor, with the three solid fuel engines provided by **Thiokol, Aerojet,** and **Hercules Powder.** The facilities of all these companies are to be expanded as "insurance" if even greater numbers of Minutemen are needed in the future.

►**American Machine & Foundry** and **ACF Industries** are developing a railroad launch car for a mobile version of the missile. **But this project has now been set back by a decision to switch the funds earmarked for the first three mobile squadrons to three underground silo squadrons.**

●The rationale for this is the additional missiles to be gained during the critical 1963-1964 period—150 in the three fixed squadrons as against 90 in the railroad configuration—as well as the substantially higher cost of the mobile system. The Kennedy Administration appears to have set a certain number of long-range missiles as a goal and is hell-bent on achieving that number as early as possible.

● This has not prevented it, however, from slashing some earlier programs where it appears advantageous to do so. **Martin Co.'s Titan program, set at 14 squadrons at the insistence of Congress a little over a year ago, is being cut to 12, with the elimination of the last two planned. These were to have been composed of 18 missiles of the quick-firing, heavy warhead Titan II type.**

● The decision to increase substantially the Polaris and Minuteman inventories, and the fact that the last two Titan squadrons would not be ready until 1964, led to the decision. There will still be six Titan II, six Titan I, and 13 Atlas squadrons of liquid-fueled "first generation" ICBM's. **The Eisenhower budget provided approximately $4 billion for the "Big Four"—Atlas, Titan, Minuteman and Polaris. The Kennedy changes, plus and minus, make a revised total of $5.3 billion.**

● The Titan cutback will release $100 million in fiscal 1962 and another $270 million in following years. The two squadrons had not actually been ordered yet from Martin, and ground had not been broken for the base, near Rome, N. Y.

►**Martin is the beneficiary of another stepup in the Kennedy budget, the Dynasoar manned space glider, for which it is providing propulsion in the form of Titan II engines. Boeing is the airframe contractor, with RCA and Minneapolis-Honeywell holding important development subcontracts.**

►Another cancellation stemming from the new budget is the controversial Aircraft Nuclear Propulsion (ANP) program. **General Electric** and **Pratt & Whitney** (United Aircraft) have been competing for years in the development of the nuclear engine, with the program already in the billion dollar class. Mr. Eisenhower provided funds for continuing one of the two concepts, and tossed the ball to Mr. Kennedy. **Mr. Kennedy said the time had come for "a clean-cut decision," and cancelled the project completely as a military program, handing it over to the Atomic Energy Commission** as **a research project at one-fourth the funding cost.**

● Another billion dollars would have been needed to get anything like a militarily useful aircraft. **General Electric** is expected to be particularly hard hit by the move, as it has built up an extensive facility near Cincinnati for the project. Some of the facilities of both companies will be utilized by the AEC, but funding will be negligible compared with that of recent years. Also hurting as a result of the decision will be Convair (General Dynamics), where the airframe itself was to be built.

Appropriatons For Space

►A number of other space projects besides Dynasoar are to be accelerated. The largest single increment, $60 million, goes to **Lockheed's MIDAS,** the satellite-mounted missile detection system, with **Aerojet** supplying the infrared equipment. **Lockheed's Discoverer satellite,** the test bed for military satellite research, is also to receive additional funds from a $226 million kitty provided for it, Dynasoar, Advent, and Project Defender, the advanced research effort on anti-missile defense, in which many missile and *(Please turn to page 112)*

Inside Washington

BY "VERITAS"

SUCCOR Africa and much of Europe with American dollars, and "sucker" the U.S. taxpayers to foot the bill. This is the private reaction of not a few Capitol Hill Democrats and Republicans. They are in accord with the President's appeal to consolidate all foreign aid (military excepted) in an overall agency which would co-ordinate and control U.S. economic and technical aid beyond our shores. There is a growing Congressional view, however, that we must give more attention to Western Hemisphere nations than to those of the Old World and the emerging African republics. Educated guess is that Congress will "go along" with the single aid agency idea, but curb aid to Eastern hemisphere and accent assistance to our Latin neighbors of the South.

TAXES will not swing downward during the present session of Congress, nor will the legislators write a tax reduction measure to be effective a year hence. This, despite fact that Joe Doaks and John Q. Public are now pouring a minimum of 25 percent of their monthly pay into the Federal Treasury. One tax reduction during the Eisenhower Administration stimulated the national economy generally, produced increased Treasury revenue. Skating on thin ice over a sea of threatened anti-Communist "police actions," and uncertain as to the promised business upturn, the Solons are averse to any move at this time, or in the near future, which would reduce the Federal revenue and require an increase in the statutory debt limit with resultant further depreciation of the 48-cent dollar.

NEUTRALISM stand of President Kennedy—for some countries—does not set too well with some Members of House and Senate Foreign Affairs and Relations Committees, although they generally support his position with respect to the neutrality of Laos. There is the feeling, however, of continuation of the Eisenhower-Dulles concept that neutralism is a breach in the wall of Free World resistance to Communism. Either the foreign nations to whom we gave almost unlimited military and economic aid are for us or against us, and a neutral stance amounts to opposition, in that it gives the Russians "aid and comfort" in the never-ending cold war and the Free World-Red ideological battle for the minds of men and nations. There is very definite Congressional resentment against the neutralism of India in the face of the nearly $2 billion aid given or pledged to that country. There may be sharp Capitol Hill criticism of the President, perhaps a tightening of aid to the neutrals.

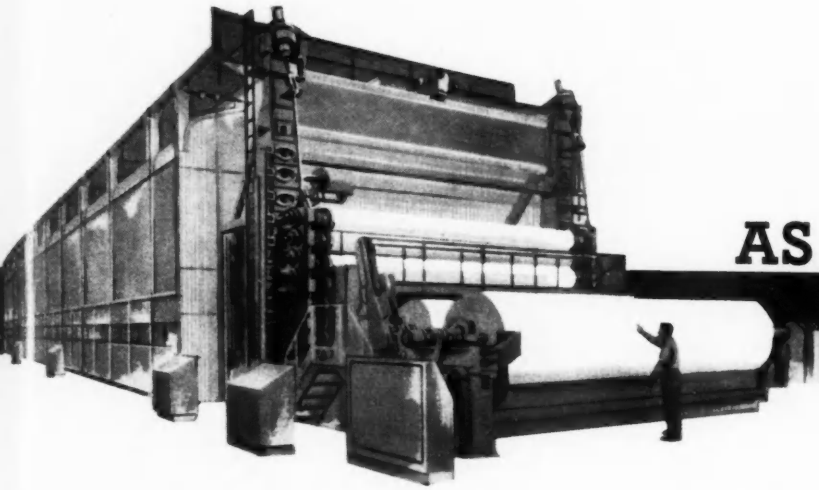
WASHINGTON SEES:

Russian expressions of hope of a negotiated settlement of the Laotian problem are to be taken with a large handful of salt — not just a pinch. Old-timers in the State Department recall that virtually every Russian promise, since World War II, oral or in solemn and signed agreement, has been dishonored or abrogated by the Reds to suit the convenience of the Communist cause.

The advantage in Laos is entirely with Russia — and Red China — for a number of reasons, chief of which is that Laotians themselves are indifferent to the situation, have absolutely no comprehension of the dangers of Communism, perhaps care less, and are certainly unwilling or unable to learn. In short, the will to stem the Red tide is just not there.

Another reason, primarily tactical, is that the Southeast Asia Treaty Organization (SEATO) countries, although backed by the resources of this country and of England, simply do not have the manpower to wage warfare in a jungle-mountain terrain against the rebels of North Viet-Nam, admirably trained and amply supplied with arms. Further, Red China is ready with half a million Korean seasoned "volunteers".

At best, there will be an uneasy truce for the next several months, during which time there will be a further Red build-up of arms, equipment and men — all in line with the Lenin doctrine that at times there must be temporary concessions to the capitalist world.



AS WE GO TO PRESS

Consumer Counsel Idea Irks Federal Agencies, But Gets Labor Praise. President Kennedy's creation of a White House Office of Consumer Counsel is resented by some of the Federal regulatory agencies — Interstate Commerce Commission, Federal Trade Commission, etc. — but has the unqualified backing of the AFL-CIO According to as yet unformulated plans, the Commission would intervene as a sort of "friend of the court" (amicus curiae) in matters pending before those bodies to represent "consumer interests" in proposed new regulations, etc. The various agencies feel that they now afford ample opportunities for everyone to present their side, that a White House agency, staffed with attorneys, economists and "experts" could only serve to delay decisions and confuse issues. Labor is on the "band wagon" with a view to planting its own advocates in such areas as welfare and labor legislation, wages, pricing, etc. Congress is virtually powerless to retard, much less halt, the President's plan even though substantial number in both Houses feel "it isn't needed".

Possible Business Upturn Poses Problems For Administration. Fact that the downward business trend has stopped, promises to move upward, presents problems to the New Frontiersmen. Adviser Walter Heller's recent acknowledgment before a Congressional Committee that we have "hit the bottom of the barrel" and can look forward to an upswing has very definitely served to slow the Administration's "crash" program for economic recovery, even though unemployment rate may continue high for some time.

Very definitely, his testimony was responsible for Congress "trimming" the President's minimum wage recommendations; will serve to curb spending for public works (including highway) programs, and will be a retardant to the Aid-to-Education program which would create additional employment through expanded school construction. Further, the Heller forecast may serve to slow Administration proposals to lower mortgage rates to encourage home construction. The Administration is concerned with fulfilling campaign pledges, the Congress with retaining the value of the dollar and avoiding an increase in the statutory debt limit. It is here repeated, a business upturn would frustrate many of the extravagances of the new Frontier.

Kennedy Definitely A "Minority" President. Final and official figures, to be published within the next day or two, will reveal that President Kennedy received less than 50% of the popular vote cast. The President garnered a popular total of 34,221,349, a less than 112,000 plurality over Nixon, while Sen. Harry F. Byrd and the "splinter" candidates piled up 823,010 to put Kennedy in the popular vote hole. This is another of the reasons that the New Frontiers programs makes slow progress on Capitol Hill.

Organized labor, which went almost all out for Kennedy, is conning the figures carefully and even now mapping strategy for the 1964 elections, as well as the Congressional set-to of 1962. Recognizing that a shift of less than 1% in the popular

vote in 11 States could have switched Electoral College votes to Nixon, the AFL-CIO's Committee on Political Education (COPE) is even now organizing to "take" the White House in 1964. Fund appeals, are now in the mails, while local COPE Chairmen will meet in Washington later this month or early May.

Unemployment To Slow Rail Mergers? Consolidation of two or more of the carriers brings a certain amount of unemployment, naturally. The President has now dipped a hand in the controversy by asking the Secretary of Labor to make an initial study and recommendations on the subject. The White House is without legal authority to halt any merger approved by the Interstate Commerce Commission (ICC), but it could exert strong pressure on that body to withold approvals until a solution satisfactory to the rail unions is found. Meanwhile, along other fronts the rail lines are making some slight progress in their all-out fight for opportunities to compete more evenly with the Federally subsidized forms of transportation. It can be said with assurance that influential members of House and Senate are increasingly aware of the near-desperate situation of the rail carriers. It is also a fact that Defense Department is pretty solidly back of railroads.

Gold Hoarding Mounts, But In Vain. Gathering and concealing stocks of the basic metal by speculators (now estimated at $600 million here and abroad), in the hope that the U. S. and Great Britain would hike the price, is absolutely futile according to Treasury experts, who declare that an all-out war would not deter the two great nations of the Free World in their resolve to keep gold pegged at the present $35 per ounce. Hoarding of gold (specie or bullion) is a criminal offense. Look for Department of Justice through Federal Bureau of Investigation (FBI) to search out and prosecute offenders.

Belgium Soon To Look To U. S. For Low-Interest Loans. This is the considered opinion of Washingtonians expert in the field of international finance. Her revenues sharply curtailed when independence was granted the mineral-rich Congo, Belgium is now facing a fiscal crisis — is certain to turn to some of the U. S. – backed lending agencies, Import-Export Bank, Bank for International Reconstruction and Development, etc., possibly a direct long-term loan from the U. S. Treasury. It is not believed they will make a public offering of bonds here.

Transportation Planning Group Lacks "Practical" Men. This is a Washington criticism of Commerce Secretary Hodges' selection of "leading experts" to assist his Department in "fulfilling its responsibilities in the transportation field". The critics point out that although Mr. Hodges has selected economists, consultants, writers on transportation, urban renewal experts, etc., there is not a "practical and experienced railroad man (executive or labor), airline representative or experienced trucker" in the group. Further, there is adverse comment that the body will give too much of its attention to the commuter problems of congested urban areas, not enough to the whole national transportation picture, now critical, especially from the standpoint of defense.

Defense Spending Will Follow Geographic Lines Administration plans that prime contracts — and subcontracts — in upcoming $42 billion plus, defense spending get wider geographical distribution. Although 1960 defense contracts — prime and sub — were scattered throughout 48 States, there is the feeling in top circles that some States obtained too small a share; in one state a bare $8 million. Word has gone down from the White House that there must be "more than a trickle" going into several states, that Defense Dept. must endeavor to boost the Federal outlay in those commonwealths now enjoying only a minor share of the huge defense spending, with emphasis on aid to the areas of chronic unemployment. Pentagon does not relish the idea, believing that it can only add to the cost as it burdens procurement officers with problems beyond the necessity of getting the most materiel with the least delay.

Congressional Reapportionment To Bring Capitol Hill Fight. Several bills now pending would boost House membership to 450 instead of 435 (now temporarily 437 because of Alaska and Hawaii). About half the House prefers 435, one-fourth the present 437, the remainder want the larger figure of 450. It may not be resolved until next year.

HIGH-O-SILVER!

— *What's back of the resurgence of the metal — scarcity — politics — new demands — or just speculation?*

By CALEB FAY

► **Status of silver as an international monetary metal — new industrial applications including electronics and photography**
► **Government holdings . . . what chance for a price rise — and how soon**

EXCESS production plagues the market for nearly every metal today, with one notable exception—silver. And while everyone is aware of the gold problem, the status of this secondary monetary metal has remained more or less in the background.

Some people are now insisting that it is likely to become front page news. Their reasoning rests on the hope for a price rise in the face of supply-demand statistics, which show that world consumption of silver has consistently exceeded production by about 30% during the past decade. This discrepancy has been covered by large reserves from several sources, so that no shortages have resulted, but these reserves are likely to be used up within the fairly near future. When this happens, price quotations will probably tighten and silver is bound to come in for some share of newspaper space. Although it would be an exaggeration to visualize this situation as a "crisis", both monetary and industrial uses of silver are on the increase. Thus, the supply problems will be of growing concern to members of the industry as well as to present and prospective speculator-investors.

Supply-Demand Imbalance

For many years, since its status as a true monetary metal co-equal with gold was removed, silver has usually been in excess supply in this country. Industrial uses were not important and sales to the Treasury were pushed largely by the "silver senators" from the Rocky Mountain states as a kind of disguised subsidy to the mining industry; our grandparents will even remember when "Free silver!" was a potent political cry. But this situation no longer prevails today. World consumption during the last decade has exceeded production by more than 30%. In the five-year period 1956-60 alone, world production totalled over 983 million ounces, an average of 197 million ounces a year, while consumption reached 1,432 million ounces, or 286 million per annum. This left a deficit of 89 million ounces a year. In 1960 the deficit was even more severe; preliminary estimates fix world

consumption at 319 million ounces, 117 million ounces or 36% in excess of production of 202 million ounces.

In the United States alone the picture is one of even more severe stringency. During the 1956-60 period, domestic output has averaged a mere 35 million ounces, versus consumption nearly four times as heavy. And, as will be shown below, there is little likelihood that supplies can be materially increased within the early future. As the United States consumes about half of the total world output of silver this problem will be a vital one for us.

Growing Industrial Use of Silver

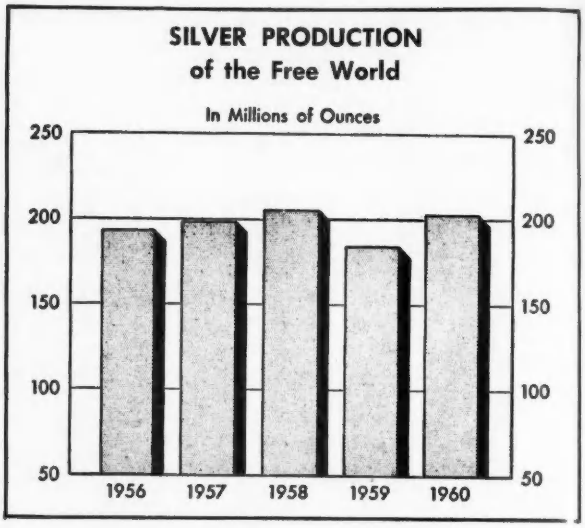
Thus, if silver production has lagged, consumption has not. Since 1956, world consumption has mounted from 267 to 319 million ounces, an increase of 20 per cent. Nor is this remarkable rate of increase likely to slow down. To the surprise of many, the use of silver as a monetary medium is distinctly secondary to its call as an industrial metal. In 1959, out of a total world consumption of 319.3 million ounces, industrial use increased 5 per cent and amounted to 226 million ounces, or 70 per cent of the total, while coinage took only the remaining 93.3 million ounces, or 30 per cent. In the United States, industrial use accounted for 103 million ounces, or 72 per cent of total silver use in 1959, and a trifle less, about 100 million ounces or 68% in 1960, as a result of the recession.

An analysis of the industrial demand should be helpful. The term "industrial demand" is frequently employed to include "arts and industries", with the former confined to use of silver for manufacture of silverware and silver plating. This is still the largest market, although a relatively static one. Of the strictly industrial markets, photographic film is the most important, and accounts for 28 to 30 million ounces a year. The popularity of amateur picture taking insures a steady demand for film, although the growing use of color film does permit a larger silver recovery from used film than from the old black and white.

New Industrial Uses

The second largest industrial use is in silver solders for brazing non-ferrous metals. As a bonding material silver solders have no equal. The bond becomes stronger than the metals themselves. Silver brazing alloys are preferred in the manufacturing of such consumer durables as refrigerators and air conditioning equipment, as well as for jet aircraft and missiles, as they provide high-strength leak-proof joints at low cost. In this field, consumption amounts to around 25 million ounces a year—exact figures are lacking.

There is a rapidly growing use for silver in the electronics industry, where it is employed in all forms of electrical contact. It outrivals copper as a conductor of electricity and during the war it was previously used as a temporary substitute for scarce copper. Its use may approximate 20 million ounces in this field, which is growing rapidly. Another promising new outlet is in the manufacture of silver-zinc and silver-cadmium batteries for jets, portable TV sets, and communication equipment. Other uses include silver as a catalyst and as a bacteriocide, particularly in swimming pools.



Increasing Importance in Coinage

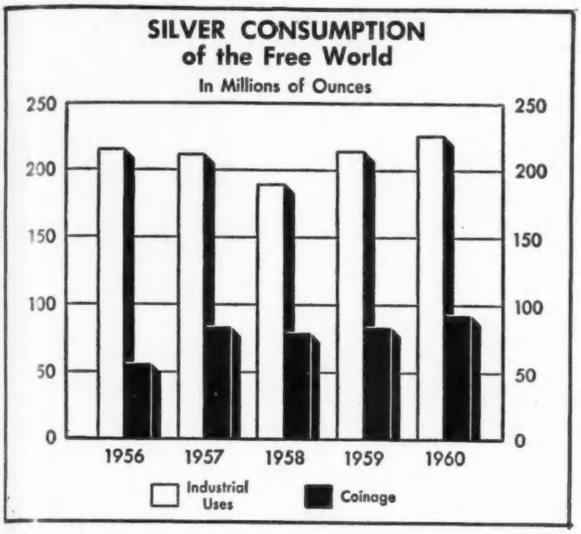
In ancient and mediaeval times silver was the principal currency medium, and even in our own early history it enjoyed a legal parity with gold ("bimetalism"), until 1857. In that year it was demonetized and demoted to the status of a mere token coin. Since then, as has been stated, governmental purchases of silver have been viewed largely as a subsidy to this segment of the mining industry.

► But this picture has now reversed itself; silver is making a definite come-back as a monetary metal and the demand for silver for subsidiary coinage shows a marked increase. This arises from a utilitarian as well as a fiscal aspect and, although linked to population growth, reflects other developments in our society as well. The amazing growth of automatic vending machines calls for an astronomical amount of quarters and dimes, which are thus temporarily taken out of

Silver Producers With Substantial Per Share Output

	1959 Silver Output (ounces)	Capital Shares	Oz. Silver produced per share	Recent Price	1960 Earnings Per Share	Curr. Div.
I. UNITED STATES						
American Smelting	14,000,000	5,447,000	2.5	62	$3.72	$2.00
Sunshine Mining	6,292,000	1,543,000	4.1	7½	.30[1]	.20
Bunker Hill	1,992,000	1,583,000	1.2	11	d2.60[1]	—
Shattuck Denn	924,000	840,000	1.1	9	.45[1]	.35[2]
II. CANADA						
Consol. Mining & Smelt.	9,367,000	16,382,000	0.6	23	1.40[1]	1.00
Noranda	5,333,000	4,480,000	1.2	45	2.60[1]	2.00
Hudson Bay	1,538,000	2,758,000	0.6	48	3.60[1]	3.00
III. OTHER FOREIGN						
Cerro Corp. (Peru)	11,099,000	2,805,000	4.0	37	3.99	1.10[3]
N.Y. & Honduras Rosario	2,833,000	304,000	9.2	35	1.70[1]	1.40
Howe Sound (Mexico)	1,079,000	3,013,000	0.3	20	1.55[1]	[4]

d—Deficit. [1]—Estimated. [2]—Paid in 1960. [3]—Plus stock. [4]—Paid 6% stock in 1960.



SILVER CONSUMPTION of the Free World
In Millions of Ounces

circulation, thus calling for a still larger supply. The same situation holds true for the use of small coins in toll road collectors, parking meters and pay telephone boxes.

► **In other countries silver remains the principal monetary metal; in some its importance is even growing. It is still the storehouse of value for the people of the Far East, and its intrinsic merit as money now appears to be bringing increasing demand in Europe as well. Quite indicative is the fact that France assigned part of its badly needed tax revenues for the purpose of remonetizing its silver. For the past two years the French coinage program has had much significance in world silver markets. A total of over 12 million ounces were used in 1960, and the whole program will involve about 58 million ounces, with 40 million ounces still uncompleted. Up to now, minting has been restricted to a new five-franc coin, which will have a value of a dollar in terms of U.S. currency, and contain about 50 cents worth of silver. This means to the French citizen that the maximum devaluation that he might see in his coin is no more than 50 per cent, as the intrinsic value of the silver contained would protect the remainder. No doubt this is welcome assurance when he recalls that the paper franc has in the past deteriorated to one percent of its original face value. Italy similarly is instituting a coinage program that calls for a total of 24 million ounces. It is noteworthy that countries that are returning to silver coinage are precisely those which have had the most unfortunate experience with paper money in the past.**

Why the Problem Has Been Postponed

With these expanding demands for silver and in the light of the chronic underproduction, how have conspicuous shortages and climbing prices been avoided? How has the nearly solitary position of silver as a metal not plagued by excess production escaped wider public attention?

► The answer is that silver has flowed back into this country, or been supplied to industry, from three principal sources: the demonetization of silver coins, particularly by Great Britain, Cuba and Spain; the return of lend-lease silver that had been supplied to many countries, notably Great Britain and India, during the war; and sales by the U. S. Treasury from its "free stock."

► Shipments of U. S. silver to other countries during the war, both for currency and industrial uses, approximated 400 million ounces. Over 90% of this has now been returned by all important recipient countries except Saudi Arabia. Such repayment has boosted the Treasury's stock and allowed it to continue selling silver to domestic users. But this source has just about exhausted itself.

The Role of the Treasury

Although the value of our currency is no longer defined in terms of silver, the Treasury has continued to be the major purchaser of the white metal. The price paid by the Treasury has been changed at various times, but was last fixed by legislation, on July 1, 1946 at 90½¢ an ounce. In the silver dollar silver is officially valued at $1.29 an ounce, and the Treasury's buying price leaves it a commission, or "seigniorage", of 30%. (The silver dollar contains about 70¢ worth of silver, at market prices).

► The Treasury's seigniorage, together with its excess of reserves backing the silver certificates, or ordinary dollar bills, has given it a substantial free stock of silver. This it is authorized to sell to domestic users at 90½¢ an ounce, identical with its own purchase price. The Treasury may make, or withhold, these sales at its option, and the price could be raised at any time by the government, but important domestic consumers would naturally oppose any revisions in current procedure.

● **Just the same, it is becoming evident that the present situation cannot continue much longer. The Treasury's free silver stocks, all that can be sold under the law, totalled only 123.5 million ounces at the end of 1960. This was down more than 50 million ounces, or nearly 30%, from the 175 million free stock at the end of 1959. This reduction resulted from withdrawals of 46 million ounces for coinage requirements and sales of 22 million to domestic industry, partially offset by acquisitions of 16 million ounces, the bulk of it from the return of lend-lease silver.**

● **If the Treasury were to suspend sales, silver would presumably seek its own level on the international market. The official price of $1.29 an ounce would set a top limit, for as the metal approached that price, silver certificates would be presented for redemption and coins melted down.**

Difficulties in Increasing Silver Stock

The prospect of building up the Treasury's free silver stock is pretty slim. Even if all domestically mined production—about 35 million ounces a year—were to be presented to the Treasury, only three ounces out of ten, or a total of 10.5 million, can either be added to the free stock or used for currency.

Curiously, there is very little likelihood that a higher price for silver would bring in substantially increased supplies of the white metal. This is because straight silver producers are extremely scarce, both in this country and abroad, with the partial exception of Mexico, the world's largest silver-producing country.

► **About 75 per cent of new silver is derived as a by-product from production of copper, lead and zinc ores, and silver recovery** *(Please turn to page 102)*

Part Six of Our . . .

Special Study Of Major Industries . . .

An Analysis in Depth . . .

INVESTMENT REAPPRAISAL OF THE OILS

— Domestic and International

By JOSEPH ANTHONY and DONALD IRWIN

- **What the oil investor should know about the short — intermediate — and long term prospects for the oil industry — the oil companies**
- **Outlook for the major global oils — the producers — the integrated oils — the domestic companies**
- **Which are in the best position — those still speculative — where the outlook indicates further weakness**
- **Varying earnings-dividend trends for the individual companies**

THE petroleum industry, the investment hero of the early 1950's, has once again returned to favor after three years of lagging earnings and depressed market prices. Following World War II the industry enjoyed a 6% annual growth rate in consumption due to its displacement of coal in rail transportation and space heating, and to the rapid increase in automobile usage. Investors viewed the industry with unbounded optimism, and the industry's healthy growth rate was discounted far into the future. Oil equities, moreover, were considered an ideal inflation hedge due to the raw-material nature of the business and its low labor content.

The post-Korean period saw a marked decline in the domestic industry's rate of growth. Before this could be properly evaluated by the investing public, however, the Suez crisis created an artificial situation of short-supply which boosted both selling prices and industry earnings. The resolution of the Suez incident left the industry with considerable overcapacity in both the producing and refining sectors of the business. Of equal importance was the large tanker fleet that had been built up as a response to Suez, and that now enabled the shipment of oil from low-cost producing areas at bargain rates. These factors, together with a decline in the rate of gain of domestic consumption to about 2% per year, brought about a contraction in earnings that spurred a 30% falloff in the market prices of oil equities from the peak reached in June, 1957.

Comparative Earnings and Dividend Records of Leading Oil Companies

	Earnings Per Share 1958	Earnings Per Share 1959	Earnings Per Share 1960	Cash Earn. Per Share 1960	Dividends Per Share 1958	Dividends Per Share 1959	Indic. Current Div. †	Recent Price	Div. Yield	Price Range 1960-61
Amerada Petroleum	$3.56	$3.81	$3.90[8]	$ *	$2.00	$2.00	$2.60	74	3.5%	79¾- 55
Atlantic Refining	3.86	3.19	5.00	10.91	2.00	2.00	2.00	54	3.7	57⅝- 31¼
Cities Services	4.18	3.96	3.85	11.68	2.40[2]	2.40[2]	2.40	51	4.7	54⅞- 39⅜
Continental Oil	2.40	2.85	2.90	6.48	1.60	1.70	1.70	57	2.9	59½- 40
Cosden Petroleum	2.01	1.57	1.59[1]	3.50[1]	1.00[2]	1.00[2]	1.00	24	4.1	25⅜- 18⅛
Creole Petroleum	3.04	2.58	2.75[8]	*	3.60	2.60	3.25	36	9.0	46⅛- 25¼
Getty Oil	.79	.67	.70[8]	*	—	[3]	—	18	—	19⅞- 12¼
Gulf Oil	3.39	2.90	3.20	5.51	.83[2]	1.00[2]	1.00	37	2.7	38½- 26½
Imperial Oil Ltd.	1.61	1.73	1.94	*	1.20	1.20	1.35	42	3.2	43 - 30⅞
Ohio Oil	2.45	2.76	2.84	4.81	1.60	1.60	1.60[2]	43	3.7	44⅞- 30⅛
Phillips Petroleum	2.45	3.05	3.27	7.34	1.70	1.70	1.70	59	2.8	60⅛- 41⅛
Plymouth Oil	1.79	.84	d.94	*	1.20[2]	1.20[2]	—	25	—	28¾- 15⅛
Pure Oil	3.35	3.32	3.29	6.63	1.60	1.60	1.60	36	4.4	39⅞- 27⅜
Richfield Oil	5.00	6.95	7.11	14.44	3.50	3.50	3.60	99[9]	3.6	100 - 68¾
Royal Dutch Petroleum	4.11	4.05	4.02	*	1.32	1.32	1.59	40	3.9	46⅞- 31½
Shell Oil	2.12	2.43	2.39	5.70	1.00	1.02	1.10	45	2.4	46⅞- 30¼
Sinclair Oil	3.23	2.96	3.41	10.83	3.00	3.00	2.00	42	4.7	55⅞- 33
Skelly Oil	4.82	4.68	4.32	11.29	1.80	1.80	1.80	53	3.3	56⅝- 37
Socony-Mobil Oil	3.24	3.38	3.76	*	2.00	2.00	2.00	44	4.5	46¼- 34⅞
Standard Oil of Calif.	4.08	4.01	4.21	6.54	2.00	2.00	2.00	51	3.9	51⅝- 40
Standard Oil of Indiana	3.29	3.90	4.05	9.62	1.40[6]	1.40[5]	1.40[4]	50	2.8	51⅞- 35
Standard Oil of New Jersey	2.62	2.91	3.18	*	2.25	2.25	2.25	45	5.0	50½- 38
Standard Oil of Ohio	4.82	5.02	4.94	11.59	2.50	2.50	2.50	55	4.5	59¼- 44½
Sun Oil	2.73	3.48	3.78	8.55	1.00[2]	1.00[2]	1.00	54	1.8	55¾- 42¾
Sunray-Mid Continent Oil	2.14	2.25	2.10	5.48	1.32	1.32	1.32	26	5.0	26⅝- 20½
Superior Oil Co. (Calif.)	39.20	45.84	51.19	171.67	3.00	4.00	7.50	1235	.6	1464 -855
Texaco	5.24	5.85	6.34	11.05	2.40	2.60[2]	2.85	98	2.8	102⅜- 64½
Texas Gulf Producing	.99	1.04	1.16	*	.60	.60	.60	39	1.5	41⅞- 21⅛
Texas Pacific Coal & Oil	1.61	1.85	2.00	3.74	1.00	1.00	1.20	33	3.6	33⅞- 20½
Tidewater Oil Co.	d.03	2.23	2.22	*	[7]	[7]	[7]	26	—	27½- 16⅝
Union Oil	3.18	3.35	3.96	11.28	1.70[2]	2.00[2]	2.00[2]	54	3.7	54¾- 33⅛

d—Deficit.
*—Not available at time of going to press.
†—Based on latest dividend reports.
1—Year ended April 30.
2—Plus stock.
3—1/20 sh. of Spartan Aircraft Co.
4—Plus 1/65 sh. of S.O.N.J.; cash value of $.63 per share.
5—Plus 1/90 sh. of S.O.N.J.; cash value of $.52 per share
6—Plus 1/200 sh. of S.O.N.J.; cash value of $.30 per sh.
7—Plus 5% in stock.
8—Estimated.
9—Vote 4/20/61 on 2 for 1 stock split.

Amerada: Nation's largest independent oil producer. Large reserve position further enhanced by Lybian acreage. **B2**

Atlantic Refining: Strong east coast marketer benefiting from increased emphasis on petrochemicals and greater degree of integration in recent years. **B1**

Cities Service: Major east coast refiner and marketer, with above average yield. Industry position likely to improve in years immediately ahead. **B2**

Continental Oil: Aggressive management successfully improving larger term potential through domestic expansion, increasing emphasis on petrochemicals and development of overseas reserves. **A1**

Cosden Petroleum: Small well run concern with emphasis on marketing and refining. Future prospects improved by increasing stake in petrochemicals and W. R. Grace control. **C2**

Creole Petroleum: Although hard hit by increased Venezuelan taxes and U.S. import quotas, large reserves and Standard Oil (N.J.) management provide interesting speculative possibilities. **B2**

Getty Oil: Owner of controlling interest in Skelly and Tidewater, company could benefit from consolidation of these interests, but for the present remains speculative. **D3**

Gulf Oil: Leading world-wide integrated concern benefiting from substantial improvement of domestic operations. Continuation of present trend appears likely, making Gulf one of the most favorably situated concerns within its group. **A3**

Imperial Oil: Major Canadian oil company in a good position to benefit from longer-range expansion of petroleum consumption in Canada. **B1**

Ohio Oil: Recent acquisitions have expanded degree of integration. Reserve position likely to show significant improvement as a result of Lybian activities. **B1**

Phillips Petroleum: Quality company with heavy stake in petrochemicals, natural gas and natural gas liquids providing above average growth potentials. **A1**

Plymouth Oil: Small integrated company with poor record in recent years. Some improvement in earnings expected this year, in view of heavy non-recurring write-offs contributing to 1960's poor operating results. **D4**

Pure Oil: Recent acquisition of Woodly Petroleum, increased Venezuelan production and major discoveries in Utah and off-shore Louisiana have improved company's position. **B4**

Richfield Oil: Leading West Coast integrated company with important participation in Alaska. A 2-for-1 stock split has been proposed. **B1**

Royal Dutch Petroleum: Leading international company with strong world-wide position in geographically diversified markets. Over-all operation suffering from petrochemical activities whose earnings have been disappointing to date. **B2**

Shell: A leading domestic integrated company with favorable exploration record and strong petrochemical position. Natural gas becoming of increasing importance. **A2**

Sinclair: Substantial earnings comeback in 1960 due primarily to petrochemical operations which are expanding rapidly. **B3**

Skelly Oil: Strong position in liquified petroleum gas and aggressive exploration program provides base for possible restoration of earnings to former levels. **B4**

Socony Mobil: Major international company with improved operations brought about by a change in management in recent years. **A1**

Standard Oil of California: A major world-wide petroleum company with longer-term prospects enhanced by upgrading of refining operations and petrochemical expansion in recent years. **A3**

Standard Oil (Indiana): Increasing emphasis on development of operations in foreign areas, and a cost reduction program aiding position of this leading Mid-Western refiner. **A1**

Standard Oil (New Jersey): Future potential of Free World's largest petroleum concern improved by strong Lybian position. Growth in future expected to parallel that of the industry in general. **A3**

Standard Oil (Ohio): Lack of integration key vulnerability of this well managed company. Current earnings benefitting from improved product prices. **B2**

Sun Oil: Petrochemical operations becoming of increasing importance. Company also benefiting from recent gas finds, but earnings remain exceptionally sensitive to variation in refiners margins. **B3**

Sunray-Mid-Continent: Petrochemical operations becoming more important, but product prices will continue to exercise dominant influence. **C2**

Superior Oil: Above average exploration success record. Although operations are restricted to production and exploration, longer term potential appears promising. **B1**

Texaco: Able management and strong international position has resulted in solid growth in recent years which should continue. **A1**

Texas Gulf Producing: Historically a relatively small domestic producer, future earnings picture considerably brightened by recent Texas and Lybian discoveries. **B2**

Texas Pacific Coal & Oil: Domestic producer with substantial reserves. Future growth likely to be more dynamic than that of recent years in view of increased emphasis on activities outside of Texas. **B2**

Tidewater Oil: Earnings in recent years benefiting from new East Coast refinery. While no dividends will be paid for at least next five years, should have interesting capital gains potential. **B2**

Union Oil of California: Important West Coast marketer. Louisiana gas developments appear promising. **B1**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from lows. 4—Lower earnings trend.

Comprehensive Statistics

Figures are in million dollars except otherwise stated.	Atlantic Refining	Gulf Oil	Ohio Oil	Phillips Petroleum	Pure Oil
CAPITALIZATION:					
Long Term Debt (Stated Value)	$ 176.8	$ 257.3	$ 6.0	$ 261.8	$ 80.7
Preferred Stocks (Stated Value)	$ 35.2	—	—	—	—
No. of Common Shares Outstanding (000)	9,053	103,143	13,807	34,358	9,894
Capitalization	$ 302.6	$1,116.9	$ 113.0	$ 433·6	$ 130.2
Total Surplus	$ 418·1	$2,000.1	$ 312.8	$ 935.3	$ 387.7
INCOME ACCOUNT: Fiscal Year Ending	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
Net Sales	$ 561.2	$2,720.8	$ 352.0	$1,200.1	$ 647.9
Depletion, Amortization	—	$ 238.0[1]	$ 27.2[1]	$ 139.4[1]	$ 33.1[1]
Depreciation, Retirements, etc.	$ 52.2[1]	—	—	—	—
Intangibles, Devel, Costs, Losses on Leases, Drilling Costs, etc.	—	—	$ 31.0	—	—
Total Income Taxes	$ 7[1]	$ 136.1	$ 1.0	$ 54.0	$ .1
Interest Charges, etc.	$ 8.7	$ 9.1	$ —	$ 11.4	$ 3.5
Balance for Common	$ 45.2	$ 330.3	$ 39.2	$ 112.9	$ 32.5
Operating Margin	8.1%	17.1%	11.2%	12.4%	5.0%
Net Profit Margin	8.2%	12.1%	11.1%	9.4%	5.0%
Percent Earned on Invested Capital	8.5%	11.5%	9.3%	10.2%	7·4%
Earned Per Common Share	$ 5.00	$ 3.20	$ 2.84	$ 3.29	$ 3.29
Cash Earnings Per Share	$ 10.91	$ 5.51	$ 4.81	$ 7.34	$ 6.63
BALANCE SHEET: Year Ended	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
Cash and Marketable Securities	$ 31.6	$ 499.6	$ 36·0	$ 78.8	$ 55.7
Inventories, Net	$ 56.4	$ 261.7	$ 46.9	$ 128.4	$ 67.7
Receivables, Net	$ 61.2	$ 466.7	$ 40.4	$ 154.7	$ 70.6
Current Assets	$ 168.9	$1,279.9	$ 123.4	$ 390.5	$ 194.0
Current Liabilities	$ 84.9	$ 498.7	$ 44.0	$ 194.8	$ 64.7
Working Capital	$ 84.0	$ 781.2	$ 79.4	$ 195.7	$ 129.3
Current Ratio (C. A. to C. L.)	2·0	2.5	2.8	2·0	3.0
Fixed Assets, Net	$ 617.0	$2,185.0	$ 326.9	$1,079.5	$ 380.1
Total Assets	$ 819.9	$3,843.4	$ 470.0	$1,646.8	$ 591.9
Cash Assets Per Share	$ 3.49	$ 4.84	$ 2.60	$ 2.29	$ 5.62
Inventories as percent of Sales	10.6%	9.0%	13.3%	10.7%	12.9%
Inventories as % of Current Assets	33.4%	20.4%	38.0%	32.9%	34.6%

*—Statistical data on other leading companies have not been included because recent balance sheet figures have not been released yet.

N.A.—Not available.

Recent Earnings Comeback

In the latter half of 1960, however, the domestic segment of the oil industry experienced a pronounced improvement in profits primarily due to a sharp recovery in refined products prices and in refiners' margins. This latter figure—the difference between what the refiner pays for his crude and the price at which he sells his refined product mix—hit a low point of 72¢ per barrel in May, 1960, and then climbed to an average 92¢ in the third quarter and 95¢ in the fourth quarter.

This improvement was brought about by a combination of factors including continued strict prorationing by Texas and other states, mandatory quotas on imports, a more statesmanlike management of refinery output, and a colder-than-normal winter in most areas of the nation. Also contributing to increased earnings of many companies was a marked drive for staff reduction and other cost cutting measures. Of longer term significance is the trend in the industry toward further integration and consolidation, and the diversification of many companies into growth areas such as petrochemicals, natural gas, and liquified petroleum gas.

The fourth quarter of 1960 was the most gratifying period the industry has had since Suez. A representative group of 25 companies showed a 17% increase in net earnings over the comparable quarter of 1959. The best gains were demonstrated by domestic integrated refiners, especially those with markets concentrated on the Eastern seaboard.

Comparing net earnings for the fourth quarter of 1960 with those of 1959 **Atlantic Refining** was up 220%, **Sun** up 35%, **Standard Oil (Indiana)** up 25%, **Champlin** up 25%, **Phillips** up 23%, **Ashland** up 8% **Continental** up 5%, **Ohio** up 4%, **Shell** down 7%, **Sunray Mid-Continent** down 8%, and **Tidewater** down 40%. The internationals also showed impressive fourth quarter gains, with the improvement coming mainly from domestic sources. **Gulf Oil** was up 24%, **Standard Oil (New Jersey)** up 23%, **Texaco** up 22%, **Socony Mobil** up 14%, and **Standard Oil of California** was down 9%. Crude oil producers, under pressure from price discounting and rising costs, did not share in the industry's recovery. Such producing companies as **Amerada, Honolulu** and **Texas Gulf Producing** experienced poorer year-to-year comparisons for the fourth quarter, while **Louisiana Land** and **Texas Pacific Coal & Oil** held their earnings just about even.

Overseas Difficulties

The United States, with prorationing in many states and with mandatory quotas on imports, proved a more orderly petroleum market in 1960 than did the rest of the world. This was true in spite of the fact that overseas demand is growing at a rate more than twice that of domestic demand. **The basic problem in the world markets continues to be price weakness, originating in oversupply and aggravated by a number of political and economic factors that show little sign of coming to an end.**

Comparing the Position of Leading Oil Companies *

Richfield Oil	Shell Oil	Skelly Oil	Standard Oil of Calif.	Standard Oil of Indiana	Standard Oil of Ohio	Sun Oil	Texaco	Union Oil
$ 136.4	$ 200.0	$ 3.3	$ 172.8[2]	$ 423.9	$ 52.1	$ 23.6	$ 335.9	$ 176.5
—	—	—	—	—	$ 18.2	—	—	—
4,039	60,573	5,654	63,224	35,770	4,855	13,157	61,749	8,532
$ 213.8	$ 427.1	$ 147.0	$ 567.9	$1,318.1	$ 118.9	$ 554.1	$1,896.9	$ 394.3
$ 183.2	$1,175.9	$ 213.4	$1,864.4	$1,356.8	$ 224.9	$ 87.3	$1,196.7	$ 253.9
12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
$ 288.9	$1,827.8	$ 254.9	$1,922.4	$2,005.8	$ 371.6	$ 749.7	$2,980.3	$ 440.5
$ 29.6[1]	$ 201.1[1]	$ 39.3[1]	$ 152.2[1]	$ 199.5[1]	$ 7.9	—	—	—
—	—	—	—	—	$ 18.8	$ 63.3[1]	$ 256.1[1]	$ 42.3[1]
$ 9.9	—	$ 9.9	—	—	$ 5.7	$ 33.5	$ 34.6	$ 21.5
$ 14.6	$ 29.7	$ 4.3	$ 35.6	$ 86.8[3]	$ 11.5	$ 5.4	$ 60.2	$ 6.6
$ 5.3	$ 6.4	$ .1	$ 7.6	$ 16.9	$ 2.3	$ 1.7	$ 14.2	$ 5.6
$ 28.7	$ 144.5	$ 24.4	$ 266.1	$ 144.7	$ 24.0	$ 49.3	$ 391.7	$ 34.4
15.6%	9.3%	10.6%	9.3%	N.A.	11.0%	6.5%	10.3%	14.8%
9.9%	7.8%	9.5%	13.8%	7.2%	6.9%	6.5%	13.1%	7.8%
11.0%	10.3%	7.0%	11.3%	6.4%	8.4%	11..2%	14.2%	7.3%
$ 7.11	$ 2.39	$ 4.32	$ 4.21	$ 4.05	$ 4.94	$ 3.78	$ 6.34	$ 3.96
$ 14.44	$ 5.70	$ 11.29	$ 6.54	$ 9.62	$ 11.59	$ 8.55	$ 11.05	$ 11.28
12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
$ 54.6	$ 118.4	$ 25.9	$ 217.0	$ 355.7	$ 40.2	$ 49.1	$ 421.0	$ 68.5
$ 35.9	$ 195.6	$ 21.3	$ 134.7	$ 178.1	$ 46.0	$ 60.8	$ 291.8	$ 48.9
$ 55.3	$ 220.0	$ 28.6	$ 317.5	N.A.	$ 56.4	$ 76.6	$ 416.5	$ 85.3
$ 154.7	$ 580.5	$ 84.9	$ 753.7	$ 831.5	$ 149.6	$ 212.1	$1,173.2	$ 214.4
$ 36.8	$ 282.2	$ 28.5	$ 323.9	$ 248.7	$ 70.4	$ 80.6	$ 491.4	$ 74.1
$ 117.9	$ 298.3	$ 56.4	$ 429.8	$ 582.8	$ 79.2	$ 131.5	$ 681.8	$ 140.3
4.2	2.0	2.9	2.3	3.3	2.1	2.6	2.4	2.9
$ 257.6	$1,136.9	$ 297.1	$1,864.0	$1,976.1	$ 250.8	$ 493.1	$2,220.2	$ 482.7
$ 433.8	$1,885.3	$ 387.8	$2,782.2	$2,925.7	$ 414.3	$ 759.7	$3,646.7	$ 733.9
$ 13.53	$ 1.95	$ 4.58	$ 3.43	$ 9.94	$ 8.28	$ 3.73	$ 6.66	$ 7.86
12.4%	10.6%	8.3%	7.0%	8.8%	12.4%	10.7%	9.7%	11.0%
23.2%	33.6%	25.1%	17.8%	21.4%	30.7%	28.6%	24.9%	22.8%

—Includes deprec., depletion, amort., and retirement.
Includes subsidiaries.
cludes other taxes.
1—Tax credit.

New Oil Production

There has been a significant rise in the number of countries exporting oil or becoming self-sufficient in oil. In addition to the traditional exporting countries of Venezuela, Indonesia and the several nations of the middle-East, Algeria must now be added and Libya will be included as soon as pipeline facilities are complete. Production is increasing in Nigeria, Angola and Gabon, and West Africa may soon be self-sufficient. The various countries of the Middle East are competing for outlets.

● Iran, showing some dissatisfaction with the production rate of the present Consortium, has recently turned to ENI (the Italian state oil agency) as an outlet. ENI, under the dynamic but unconventional leadership of Enrico Mattei, is extending its aggressive marketing organization into a number of European countries outside Italy. The European market, especially Italy and Germany, is already characterized by soft prices and low profit margins in spite of rapid growth.

● A further aggravating factor is the increase in Russian oil exports, which now constitute about 4% of petroleum entering into world trade.

● In South America, Argentina and Colombia must be added to Venezuela as major oil-producing countries. ● Argentina expects to be self-sufficient in less than two years, and Colombia has been a net exporter for some time. ● Pemex, the Mexican oil agency, has been increasing its crude production at a rapid pace and now plans important ventures into natural gas and petrochemicals.

Political problems confuse the international oil picture. In Indonesia, President Sukarno has signed a bill that could pave the way for nationalization of the oil industry, allowing the present companies to remain as operators on a contractual basis. Companies operating in Indonesia include **Caltex** (jointly owned by **Standard Oil of California** and **Texaco**), **Royal Dutch, Standard Oil (New Jersey) and Socony Mobil.**

● In **Venezuela** there are signs of political instability and the government put down revolutionary attempts by both pro-Castro and militarist groups **late in 1960. Companies with a high degree of exposure** in Venezuela include **Standard Oil (New Jersey), Royal Dutch, Sinclair, Superior** and **Atlantic Refining.**

● The fate of the **Algerian** oil industry depends on the reaching of some sort of accord by the French government and the rebel F.L.N.

● **Russia** remains a problem, as the extent to which it will go to achieve political aims through oil exportation remains in doubt.

Finally, the ultimate results of attempts at world prorationing are difficult to assess. **It is probably safe to say that the Arab Oil Congress and the Organization of Petroleum Exporting countries will not result in any enforceable system of world prorationing.**

● **At worst, these measures could result in a united front on the** *(Please turn to page 104)*

Part Seven of Our . . .

Special Study of Major Industries

CHEMICALS ACT TO IMPROVE POSITION IN 1961

By BRYAN PYNOR

- **Meeting the problems of cost-price squeeze in a variety of ways . . . mergers — research — increases in plant modernization**
- **General outlook for sales in 1961 . . . plastics — the two types with favorable prospects — new markets developed — avenues in the making**
- **Industrial gases — other fast growing products**
- **1961 earnings-dividend outlook for the individual companies — those in the best position — in balance — where static**

THE year 1961 is starting out on a low key for the chemical industry. First quarter earnings of most companies in the industry are not likely to make pleasant reading for corporate treasurers or stockholders. However, there is no despair in the chemical industry. Almost to a man chemical executives believe that the worst of of the economic recession is over and that sales and earnings will begin to turn up shortly.

Dr. Charles Thomas, Chairman of **Monsanto Chemical Co.,** expressed the view of most industry leaders at the recent annual meeting of his company. He said, "I am pleased to say we have perceived a slight upturn in March, and there is some real evidence the upturn may continue in April. I am hopeful we will have a better second quarter and that the upturn we are seeing now is a real one and not just seasonal."

This year is one of restrained hope, therefore. As such, it contrasts sharply with the beginning of 1960, a period of great expectations when so much was being heard about the "Soaring Sixties" and, much to their later chagrin, most major chemical companies were setting their sights on leading American industry into this new era of buoyant demand and sharply rising profits.

But 1960 reminded everyone, including the chemical industry, that soaring business can hardly be taken for granted. The point was driven home forcefully that the chemical industry is far from immune to changes in the business cycle. This should have been recognized even earlier, since many of the pro-

Comparative Earnings and Dividend Records of Leading Chemical Companies

	Earnings Per Share			Cash Earn.	Dividends Per Share					
	1958	1959	1960	Per Share 1960	1958	1959	Indic. Current Div.†	Recent Price	Div. Yield	Price Range 1960-61
Air Reduction	$3.44	$3.31	$3.78	$6.27	$2.50	$2.50	$2.50	72	3.4%	85 - 59½
Allied Chemical	1.72	2.51	2.57	4.90	1.50	1.57	1.80	60	3.0	60½- 46
American Cyanamid	2.07	2.46	2.20	4.16	1.60	1.60	1.60	48	3.3	59⅝- 39¾
Atlas Powder	3.80	5.15	3.93	*	2.40	2.40	2.40	96	2.4	97½- 66
Columbian Carbon	2.46	3.77	4.06	7.43	2.40	2.40	2.40	57	4.0	58⅝- 43½
Commercial Solvents	.52	1.02	1.70	2.97	.25[3]	.25[3]	.60	27	2.3	28½- 13⅜
Diamond Alkali	2.32	3.90	3.87	7.20	1.80	1.80[3]	1.80	66	2.7	70 - 50¼
Dow Chemical	1.78[1]	2.39[1]	3.01[1]	5.87[1]	1.20	1.20[3]	1.40	76	1.8	99⅝- 70⅛
Du Pont	7.24	8.92	8.09	11.71	6.00	7.00	6.75	210	3.2	266½-178¾
Food Machinery & Chem.	2.39	2.92	2.98	5.20	1.05	1.20	1.40	73	1.9	76½- 44½
Freeport Sulphur	1.74	1.93	1.75	*	1.00	1.20	1.20	32	3.7	33⅜- 22
Grace (W.R.) & Co.	2.06	2.98	2.75[4]	*	2.20	1.60[3]	1.60[3]	57	2.7	61 - 35¼
Hercules Powder	2.04	2.72	2.99	5.33	1.10	1.30	1.30	91	1.4	98 - 61⅜
Heyden Newport Chemical	.62	1.19	1.61	*	.70	.60	.95	28	3.4	28⅝- 15½
Hooker Chemical	1.43	1.80	1.70	2.93	1.00	1.000	1.00	40	2.5	41⅛- 27¼
International Minerals & Chem.	2.09[2]	2.47[2]	3.00[2]	6.20[2]	1.60	1.60	1.60	43	3.7	44½- 29
Koppers Co.	2.62	2.10	3.06	8.73	2.05	1.60	2.00	42	4.7	46¾- 34⅛
Monsanto Chemical	1.93	2.80	2.49	5.18	1.00	1.00[3]	1.00	47	2.1	55⅞- 35⅛
National Distillers & Chem.	1.76	2.36	1.92	3.73	1.00	1.10	1.20	29	4.1	35½- 24½
Nopco Chemical	1.71	2.09	1.59	2.43	1.00	1.00[3]	1.00	40	2.5	44½- 26¾
Olin Mathieson Chemical	.70	2.80	2.59	4.95	1.50	1.00	1.00	45	2.2	54⅜- 37¾
Pennsalt Chemicals	.95	1.18	1.26	3.10	.61	.66	.70	34	2.0	38¼- 22½
Pittsburgh Coke & Chemical	.75	1.98	.78	3.91	1.00[3]	1.00	1.00	24	4.1	35¾- 17⅛
Reichold Chemicals	1.06	1.08	.86	*	.30[3]	.57[3]	.60	22	.27	28⅞- 17½
Rohm & Haas	13.05	20.15	18.47	33.59	2.00[3]	3.00[3]	3.00	550	.5	780 ..-501
Spencer Chemical	1.55	2.26	2.27	4.86	1.20	1.30	1.40	38	3.8	42½- 26¼
Stauffer Chemical	2.00	2.41	2.11	3.80	.90[3]	1.02[3]	1.20	58	2.0	65⅝- 45¼
Tennessee Corp.	1.74	2.60	3.04	*	1.22	1.26	1.40	60	2.3	61⅜- 34
Texas Gulf Sllphur	1.34	1.33	1.37	*	1.00	1.00	1.00	25	4.0	25½- 15½
Union Carbide	4.15	5.70	5.25	9.15	3.60	3.60	3.60	132	2.7	148½-106½
United Carbon	4.54	6.36	4.24	*	2.00[3]	2.00[3]	3.60	68	5.2	76 - 54½
Virgina-Carolina Chemical	d1.20[2]	d.22[2]	3.61[2]	12.00[2]	—	—	—	39	—	41½- 21⅛

*—Not available at time of going to press.
d—Deficit.
†—Based on latest dividend reports.

1—Year ended May 31.
2—Year ended June 30.
3—Plus stock.
4—Estimated.

Air Reduction: Good growth outlook as a result of on-site installation of oxygtn facilities for steel industry. **B2**

Allied Chemical: Major improvement in product lines gives company better outlook for future than in past years. **A1**

American Cyanamid: Strong long-term position in drugs as well as chemicals. However, over near-term, antibiotic and vitamin prices are under competitive pressure. **A4**

Atlas Power: Old-line explosives company, moving into new fields such as drugs, through merger. **B2**

Columbian Carbon: Leading carbon black company with good growth in foreign areas but relatively slow expansion at home. **B4**

Commercial Solvents: New management improving profit margins through weeding out process. **C1**

Diamond Alkali: One of few chemical companies with improved profits during recession-ridden 1960. **B2**

Dow Chemical: Excellent management but major business in plastics hurt in 1960 by over-capacity and low prices. **A4**

DuPont: Largest chemical firm with earnings susceptible to cyclical swings in over-all economy; introduction of nylon tire yarn in new auto tires would help profits considerably. **A4**

Food Machinery asd Chemical: Excellently managed and well-diversified firm with above-average earnings record. **B1**

Hercules Powder: Leader in fast-growing polypropylene plastics and also maker of high-energy fuels for rockets. **B1**

Heyden Newport: Boosted 1960 earnings. However, outlook largely dependent on strong prices for rosin and naval stores. **C1**

Hooker: Last year's earnings affected by recession. Could make sharp comeback in a good economic year. **B4**

International Minerals and Chemicals: Major producer of fertilizer. Showed benefit from heavy spring planting season. **B1**

Monsanto: Now one of largest chemical companies after recent acquisition of full interest in Chemstrand, leading nylon maker. Good outlook for medium-term earnings expansion. **B4**

National Distillers & Chemical: Earnings affected by reduction in polyethylene prices. A leading distiller. Merger with Bridgeport Brass pending. **B4**

Olin Mathieson: Widely diversified, position improving. Aluminum operations approaching profit basis. **B4**

Pennsalt: Excellently run medium-sized company with expanding participation in growth areas. **B1**

Pittsburgh Coke & Chemical: Affected by 1960 recession. Outlook is somewhat improved depending on general economy. **C4**

Reichold: Medium-sized plastics manufacturer, this firm is trying to integrate operations in order to improve profit margins. **C4**

Rohm & Haas: Top quality firm under heavy capital spending program. Management has stated early 1961 earnings expected to be below last year. **A4**

Spencer Chemical: Has diversified position including polyethylene, coal and fertilizers. **B4**

Stauffer: Well managed company with expanded stake in phosphate chemicals. **B4**

Tennessee Corp.: Diversified position in fertilizers and sulphuric acid copper fabrication. **B1**

Union Carbide: One of industry giants, this company has leading position in metal alloys, plastics and industrial gases. **A4**

United Carbon: Carbon black producer with good prospects for higher earnings from oil and gas. **B4**

Virginia Carolina Chemical: Still faced with uncertain capitalization situation. **C3**

RATINGS: A—Best grade. **C—Speculative.** **1—Improved earnings trend.** **3—Earnings up from lows.**
B—Good grade. **D—Unattractive.** **2—Sustained earnings trend.** **4—Lower earnings trend.**

Comprehensive Statistics Comparing the

Figures are in million dollars except otherwise stated.	Air Reduction	Allied Chemical	American Cyanamid	Columbian Carbon	Commercial Solvents	Diamond Alkali	DuPont
CAPITALIZATION:							
Long Term Debt (Stated Value)	$ 57.1	$169.7	$ 89.6	$ 5·6	$ 17.2	$ 24.7	—
Preferred Stocks (Stated Value)	—	—	$ .1	—	—	—	$238.8
No. of Common Shares Outstanding (000)	3,965	19,976	21,427	1,615	2,852	3,036	45,875
Capitalization	$119.0	$380.4	$315.1	$ 27.6	$ 29.9	$ 55.2	468.2
Total Surplus	$ 77.0	$280.7	$222.7	$ 44.3	$ 32.1	$ 38.3	$2,300.8
INCOME ACCOUNT: Fiscal Year Ending	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
Net Sales	$202.4	$765.8	$578.4	$ 80.5	$ 62.3	$138.3	$2,169.8
Deprec., Depletion, Amort., etc.	$ 10.1	$ 50.3	$ 42·3	$ 8.1	$ 3.6	$ 10·0	$155.1
Income Taxes	$ 16.1	$ 47.0	$ 45.5	$ 4.9	$ 5.2	$ 1	$231.4
Interest Charges, etc.	$ 2.5	$ 6.3	$ 3.7	$ .4	$ .7	$ 1.0	—
Balance for Common	$ 14.7	$ 51.2	$ 46.8	$ 6.5	$ 4.8	$ 11.7	$371.3
Operating Margin	16.1%	12.9%	13.6%	14.2%	16.5%	7.2%	22.1%
Net Profit Margin	7·2%	6.7%	8.0%	8.1%	7.7%	8.4%	17.5%
Percent Earned on Invested Capital	10.5%	10.4%	10.7%	9.9%	10.8%	11.9%	13.8%
Earned Per Common Share	$ 3.73	$ 2.57	$ 2.20	$ 4.06	$ 1·70	$ 3.87	$ 8.09
Cash Earnings Per Share	$ 6.27	$ 4.90	$ 4.16	$ 7.43	$ 2.97	$ 7.20	$ 11.71
BALANCE SHEET: Year Ended	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
Cash and Marketable Securities	$ 13.6	$ 82.5	$103.7	$ 10.7	$ 18.3	$ 11.0	$320.5
Inventories, Net	$ 31.3	$ 97.8	$ 94·8	$ 11.0	$ 10.4	$ 20.4	$320.4
Receivables, Net	$ 24.0	$ 88.7	$ 71.1	$ 9.9	$ 11.8	$ 15.5	$205.9
Current Assets	$ 70.5	$286.2	$269.6	$ 33.4	$ 40.6	$ 48.0	$859.0
Current Liabilities	$ 25.8	$ 88.6	$ 98.5	$ 11.7	$ 10.7	$ 19.3	$145.5
Working Capital	$ 44.7	$197.6	$171.1	$ 21.7	$ 29·9	$ 28.7	$713.5
Current Ratio (C. A. to C. L.)	2·7	3.2	2.7	2.8	3.8	2.5	5.9
Fixed Assets, Net	$153.7	$474.8	$321.7	$ 46.0	$ 32.9	$ 91.3	$2,166.4
Total Assets	$231.0	$800.8	$640.6	$ 88.9	$ 79.5	$142.9	$4,231.5
Cash Assets Per Share	$ 3.44	$ 4.13	$ 4.84	$ 6.64	$ 6.42	$ 3.63	$ 7.00
Inventories as Percent of Sales	15.4%	12.8%	16.3%	13.7%	16.7%	14.7%	14.8%
Inventories as % of Current Assets	44.4%	34.2%	35·1%	33.0%	25.7%	42.5%	37.3%

*—Statistical data on other leading companies have not been included because recent balance sheet figures have not been released yet.

ducts which the chemical industry produces, such as chlorine and caustic soda, are sold to cyclical industries.

Slowdown In Plastics

What was less expected, however, was a pronounced slowing down in sales of plastics. These products had previously formed the fastest growing segment of the chemical industry. As table I shows, consumption of polyethylene increased by less than 100 million pounds last year compared with an advance of nearly 260 million pounds in the previous year. Consumption of all other major plastics failed to reach anywhere near as pronounced a gain as polyethylene.

TABLE I

Estimated Consumption of Various Plastics

(millions pounds)

	1958	1959	1960
Polyethylene	855	1,116	1,201
Polystyrene	724	919	922
Polyvinyl Chloride	649	874	880
Phenolic	488	638	602
Urea and Melamine	326	383	361
Cellulosic	133	150	143
Polypropylene	—	N.A.	35

Source: Modern Plastics.

At the same time that sales were slowing down, capacity for production of most plastics was increasing sharply. Polyethylene capacity rose to 2 billion pounds by the end of 1960 and additional plants are under construction. Polystyrene capacity now probably exceeds 1 billion pounds and, as in the case of polyethylene, new facilities are being planned. In the case of polyvinyl chloride, capacity was well over 1 billion pounds.

Profit margins in the plastics industry were under severe pressure throughout 1960 inasmuch as the excess capacity resulted in severe price declines, particularly in polystyrene, polyethylene and polyvinyl chloride, the three major plastics. Several attempts by major producers to halt the price erosion were unsuccessful.

The effect of the decline in prices and the slowing down in sales volume on corporate profits was pointed up sharply by the results of the chemical division of **National Distillers and Chemical Corp.** This company is the second largest producer of polyethylene in the U.S., and this product accounts for the great bulk of the company's chemical profits. Sales of the chemical division declined from $118.5 million to $108.5 million in 1960. Operating profits were cut virtually in half from over $20 million to $10.5 million.

Preparing For The Future

The major chemical companies have responded to the cost price squeeze in a variety of ways. In the first place, a number of companies are attempting to integrate their operations forward, in order to place themselves in a stronger competitive position. This

Position of Leading Chemical Companies *

Food Machinery & Chemical	Hercules Powder	Hooker Chemical	Koppers Co.	Monsanto Chemical [2]	National Distillers & Chem.	Olin Mathieson Chemical	Pennsalt Chemical	Rohm & Haas	Stauffer Chemical	Union Carbide Corp.
$ 60.3	—	$ 59.6	$ 23.5	$239.2	$144.3	$331.0	$ 15.6	$ 1.6	$ 22.4	$484.3
$ 5.0	$ 11.1[1]	$ 5.0	$ 15.0	—	$ 43.1	—	—	$ 6.1	$ 3.6	—
7,008	8,684	7,343	2,247	27,195	10,167	13,390	3,908	1,139	9,321	30,102
$135.4	$ 29.7	$101.4	$ 61.4	$343.6	$142.0	$398.0	$ 27.3	$ 30.5	$ 72.6	$759.8
$112.5	$160.2	$ 58.5	$116.7	$345.5	$152.5	$330.9	$ 50.2	$130.3	$118.8	$735.1
12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
$363.8	$348.8	$149.8	$302.5	$890.1	$580.1	$689.6	$ 90.9	$218.2	$219.7	$1,548.1
$ 15.4	$ 19.2	$ 8.8	$ 12.1	$ 76.0	$ 16.3	$ 31.6	$ 7.1	$ 16.9	$ 15.6	$117.6
$ 17.8	$ 28.0	$ 11.5	$ 7.2	$ 58.2	$ 22.9	$ 25.2	$ 5.2	$ 22.6	$ 17.2	$130.5
$ 2.1	—	$ 2.8	$ .9	$ 12.3	$ 5.8	$ 14.5	$ .6	$ .1	$ .9	$129.2
$ 21.1	$ 26.5	$ 12.4	$ 6.8	$ 67.8	$ 19.5	$ 34.6	$ 4.9	$ 21.0	$ 19.6	$157.9
10.3%	15.4%	17.1%	4.8%	14.7%	8.9%	10.3%	11.5%	19.1%	15.7%	17.7%
5.9%	7.9%	8.4%	2.4%	7.6%	3.6%	5.0%	5.4%	9.9%	9.0%	10.2%
10.7%	19.5%	13.3%	4.7%	11.3%	7.4%	8.7%	8.0%	13.3%	11.7%	15.6%
$ 2.98	$ 2.99	$ 1.70	$ 3.06	$ 2.49	$ 1.92	$ 2.59	$ 1.26	$ 18.47	$ 2.11	$ 5.25
$ 5.20	$ 5.33	$ 2.93	$ 8.73	$ 5.18	$ 3.73	$ 4.95	$ 3.10	$ 33.57	$ 3.80	$ 9.15
12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
$ 32.6	$ 17.6	$ 36.3	$ 12.4	$107.8	$ 38.0	$ 84.0	$ 3.4	$ 22.4	$ 25.8	$125.3
$ 78.7	$ 55.6	$ 24.5	$ 49.2	$153.4	$138.0	$172.1	$ 16.4	$ 35.4	$ 35.6	$340.1
$ 58.3	$ 37.5	$ 19.0	$ 45.8	$124.4	$114.0	$ 92.0	$ 12.1	$ 23.2	$ 24.1	$208.1
$172.6	$110.8	$ 81.1	$110.4	$385.7	$293.8	$348.1	$ 32.0	$ 83.1	$ 85.6	$688.3
$ 49.6	$ 46.1	$ 21.6	$ 37.2	$143.0	$ 69.9	$ 98.3	$ 10.7	$ 24.8	$ 24.1	$245.9
$123.0	$ 64.7	$ 59.5	$ 73.2	$242.7	$223.9	$249.8	$ 21.3	$ 58.3	$ 61.5	$442.4
3.4	2.4	3.7	2.9	2.6	4.3	3.5	3.0	3.3	3.5	2.9
$117.1	$135.3	$100.6	$ 93.6	$615.7	$229.5	$396.1	$ 46.2	$ 98.3	$107.0	$970.7
$313.2	$261.8	$187.3	$215.4	$1,089.6	$540.5	$860.0	$ 89.7	$185.7	$215.6	$1,712.9
$ 4.65	$ 2.03	$ 4.95	$ 5.52	$ 3.99	$ 3.76	$ 6.27	$ 8.80	$ 19.75	$ 2.77	$ 4.16
21.6%	15.9%	16.3%	16.3%	17.2%	23.7%	25.0%	18.0%	16.2%	16.2%	21.9%
45.7%	50.2%	30.2%	44.6%	39.8%	46.9%	49.4%	51.3%	42.3%	41.5%	49.4%

1—Includes Class "A" stock.
2—Includes all dom. and fgn. subs., and Chemstrand Corp., which became a subs. on 1/16/61.

integration involves in many cases the establishment of marketing and distribution of products all the way to the retail consumer levels. At the present time only about 15% of the industry's production is sold directly to consumers, but it seems clear that this percentage will rise during the next few years. **Dow Chemical** appears to be taking the lead in this integration forward to the consumer. It is increasing its efforts to market such consumer items as Handi-wrap, polyethylene film, and Zytron, a crab grass herbicide. Dow, as well as some other producers, is not only trying to reach the consumer directly, but indirectly through small fabricators and processors. In this case it is offering to share much of the cost of advertising and promoting a product fabricated by a small company.

Mergers—Chemical companies also appear to be getting more merger-conscious for the purpose of diversification. **Dow** recently purchased **Allied Laboratories,** a leading producer of veterinary drugs. **Atlas Powder** is acquiring the Stuart Co., an ethical drug house in California. **Wallace & Tiernan** has taken over R. J. Strasenburgh, a small pharmaceutical company. **Monsanto** has acquired the full interest in **Chemstrand,** the second largest producer of nylon fibers, an acquisition which makes Monsanto the nation's third largest chemical company.

Research—Increasingly competitive conditions in the chemical industry have also caused many companies to devote increased attention to basic research activities. This reflects a growing recognition that a major reason for the narrowing of profit margins in recent years is that more and more companies are undertaking production of the same products and often using the same processes. This has come to be known in the industry as "manipulating molecules," or the manufacture of slight variations in products already established. Increasingly, however, research efforts of major companies are now being directed away from this manipulation toward basic research and the development of brand new products and processes.

Plant Modernization—Another facet of the chemical industry's response to current difficulties is a heavy program for modernization of its facilities and the construction of new ones. The industry is planning to step up its capital outlays by about 8% this year, to a total of $1.7 billion. The trend in capital outlays can be gleaned from table II.

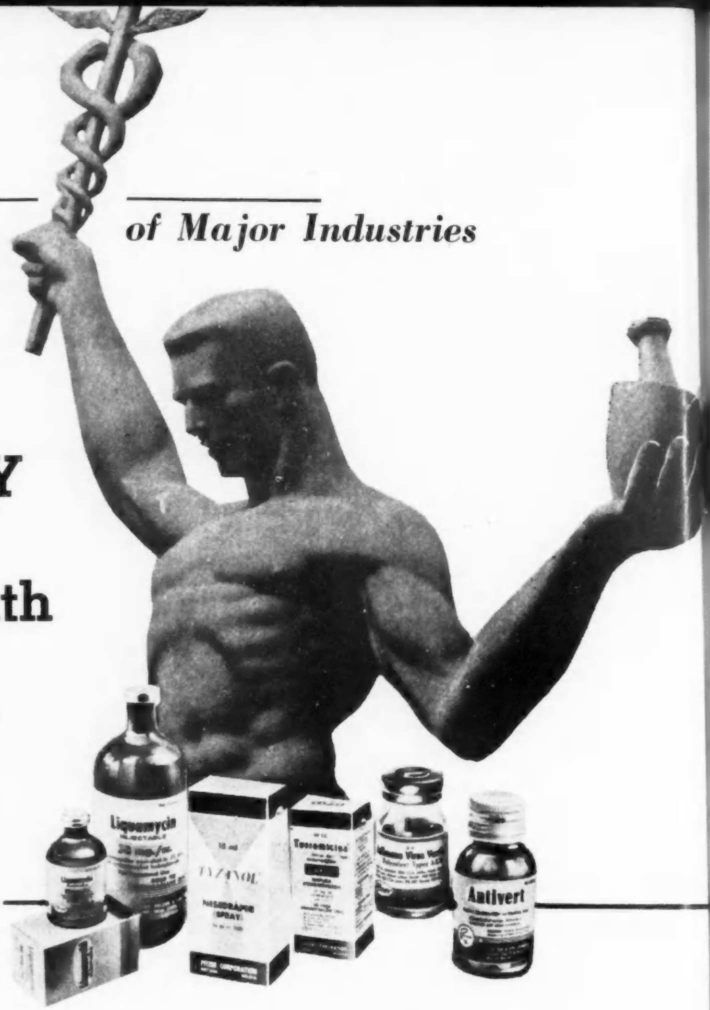
The biggest increase in new spending is earmarked for general organic chemicals. Funds for new projects are up more than threefold to $408 million. This is on top of a sharp expansion in 1960 completions, when the value of finished projects rose 45 per cent to $340 million. Also, construction of organic facilities still underway amounts to $515 million, up 60 per cent from a year ago.

Other big gainers, according to the Manufacturing Chemists Association Survey of Construction, are fertilizer chemicals, with new starts up threefold, to $100 million, and inorganic chemicals, with new projects more than doubling to $129 million.

The bulk of the construction programs of most major chemical firms is *(Please turn to page 107)*

Part Eight of Our . . .

Special Study *of Major Industries*



DRUG INDUSTRY PAUSES...
To Catch it's Breath

By ROBERT L. NEWTON

- **Latest developments in Drug Research and new products**
- **Weighing outlook for regulation as a result of Kefauer investigation — tax revision — distribution costs**
- **Earnings — dividend prospects for the individual companies — those in position to record greatest progress**

THE drug industry has for many years appealed to both the investor and the speculator. The investor has been attracted by the prospect of long term growth arising from increasing medical care expenditures at all levels. The speculator hopes for dramatic new products that will propel the company forward in sales and earning. How strong these two attractions are, can be seen from the remarkable resistance to decline these stocks have shown in the past year in the face of governmental criticism and a generally poor recent earnings trend,

New Areas of Drug Research

Rising medical care expenditures and the many new product areas constantly being opened up by medical research still provide the basis for growth in this industry. The many unconquered diseases such as cancer, virus infections, mental illness and the vast problem of aging are but part of the challenge for the researcher and the drug industry. Financed by enormous funds from government, private foundations and the drug industry, medical research has moved forward recently in a number of important areas. The development of tissue culture techniques enabled the creation of the Salk vaccine. Extending this method further by growing strains of virus on tissue over long periods of time made it possible to attentuate (reduce the virulence) and thus use live virus vaccines. For polio at least three such vaccines exist, but only one (Sabin) has so far been approved by the Public Health Service. **Pfizer** already produces the vaccine in England and large quantities have been sold in foreign countries. **American Cyanamid** (Lederle) is a likely producer since it had already developed the related Cox vaccine. **Lilly, Merck** and **Dow Chemical** (Allied Laboratories) are also prospective producers if the difficult legal problems can be resolved. Basically these problems occur because the vaccine gives a mild infection which is communicable. Thus the Public Health Service has approved the vaccine only if it will be given to everybody in a community at the same time. *In short a research and medical dream come true has become potentially a legal nightmare.*

Virus infections remain the great unconquered group of infectious diseases but the assault is proceeding on many fronts. Vaccines can often be developed to give immunity. Many researchers are active in screening chemicals that will inhibit virus infections just as antibiotics work against bacteria. Recently several such chemicals have been found and the door may be open a crack although a commercially important product still is not in sight.

Comparative Earnings and Dividend Records of Leading Drug Companies

	Earnings Per Share 1958	Earnings Per Share 1959	Earnings Per Share 1960	Cash Earn. Per Share 1960	Dividends Per Share 1958	Dividends Per Share 1959	Indic. Current Div.†	Recent Price	Div. Yield	Price Range 1960-61
Abbott Laboratories	$3.32	$3.32	$3.16	$4.15	$1.90	$1.90	$1.90	70	2.7%	74 - 50
American Home Products	5.53	6.08	6.29	6.85	3.50	4.00	4.20	194	2.1	201¾-142¼
Bristol Myers	1.46	1.70	2.05	*	.71	.85	1.10	74	1.4	81⅞- 38⅝
Carter Products	2.72	3.44	2.75[1]	*	.80	.95	1.25	56	2.2	78¼- 40¾
Johnson & Johnson	2.38	2.61	2.63	4.39	.82	.80	1.00	102	.9	110½- 53¾
Lehn & Fink	3.26[2]	3.94[2]	4.36[2]	5.10[2]	1.70	1.90	2.00	125[6]	1.6	128½- 41
McKesson & Robbins	2.85[3]	3.08[3]	2.70[1]	*	1.40	1.45	1.50	40	3.7	51¼- 31¾
Mead Johnson & Co.	2.60	3.02	7.25	*	1.20	1.20	1.80	189	9.5	198 - 60
Merck & Co.	2.53	2.78	2.57	3.54	1.40	1.60	1.60	84	1.9	96½- 73
Norwich Pharmacol	1.14	1.35	1.55	1.71	.62	.72	1.00	56	1.7	59¾- 37¼
Parke, Davis & Co.	1.89	2.09	2.05	2.39	1.00	1.30	1.40	42	3.3	51⅛- 36¼
Pfizer (Chas.) & Co.	1.48	1.51	1.57	2.09	.75	.80	.80	35	2.2	38¼- 26⅜
Plough Inc.	1.88	2.10	2.40[1]	*	.65	.82	1.00	88	1.1	90 - 43¼
Rexall Drug & Chemical	1.83	2.28	2.28	3.20	.50	.50[5]	.50[5]	52	.9	56¾- 37½
Richardson-Merrell Inc. **	1.89[1]	2.04[1]	2.42[1]	3.65[1]	.60	.63	1.00	101	.9	105 - 56⅜
Schering Corp.	3.05	2.87	2.36	3.17	1.20	1.40	1.40	54	2.5	81½- 42⅝
Smith Kline & French Lab.	1.43	1.72	1.64	1.88	.86	1.20	1.25	57	2.1	64¾- 38½
Sterling Drug	2.52	2.65	2.80[1]	3.21	1.50	1.65	1.80	77	2.3	88½- 44½
Syntex Corp.	.02[4]	d.48[4]	.20[4]	*	—	—	—	41	—	45⅜- 23
Upjohn Co.	1.43	1.65	1.62	2.00	.52	.64	.72	56	1.2	62⅝- 41¼
Warner-Lambert Pharm., Co.	2.82	3.06	3.10	*	1.50	1.53	1.65	79	2.0	81¾- 51

†—Based on latest dividend reports.
*—Not available at time of going to press.
d—Deficit.
**—Formerly Vick Chemical Co.

1—Estimated.
2—Year ended June 30.
3—Year ended March 31.
4—Year ended July 31.

5—Plus stock.
6—Vote 4/20/61 on 3 for 1 stock split.

Abbott Laboratories: Moderate sales growth but pressure on profit margins has kept earnings at same level for the past four years. Stock offers only modest yield from well protected dividends. Expanding research program could eventually lead to improved earnings trend. **A2**

American Home Products: Believed to be the largest drug company. Also an important producer of cosmetics, food and household products. Excellent record of growth. Broad product base reduces dependence on any one major line. Earnings have increased each year since 1952. **A1**

Bristol-Myers: Successful producer of proprietary drugs and toiletries. Expanding position in ethical drug field, including antibiotics. Acquisition of Clairol (hair colorings) contributed to rise in sales and earnings in 1960. **B1**

Carter Products: Record of growth in volume and profits due largely to success in marketing mild tranquilizers. Smaller position in toiletries and proprietaries. Dependence on tranquilizers leaves company somewhat vulnerable to introduction of competitive products. Recent earnings lower **C4**

Johnson & Johnson: Largest producer of surgical dressings and a variety of drug store products. **A2**

Lehn & Fink: Medium-size manufacturer of cosmetics, toiletries and disinfectants, including Dorothy Gray, Hinds and Lysol. Expanding in disinfectants. Stock has benefited from recent enthusiasm for cosmetic stocks. **A1**

McKesson & Robbins: Leading U.S. drug wholesaler expanding position in distribution of heavy and fine chemicals. Past record of moderate growth may be affected by trend toward more direct sales by manufacturers. Above-average yield. **B4**

Mead Johnson: Major producer of nutritional products, particularly infant formula foods. Success of new weight control aid, Metrecal, main reason for recent sharp gain in volume and profits. **C1**

Merck: Demand for drug specialties, such as hormones and diuretics, has partially offset declining margins in vitamins and bulk pharmaceuticals. Company is believed to have the largest industry sponsored research program. **A4**

Norwich Pharmacal: Smaller producer of proprietary and ethical drugs. Products include well-known brands, such as Pepto-Bismol and Unguentine. Excellent growth record. **B1**

Parke, Davis: Leading and long-established full-line ethical drug company. Most important product is broad spectrum antibiotic, Chloromycetin. **A2**

Pfizer: Much of recent growth has come from rapidly expanding foreign business. A major antibiotic producer which over the years has been moving toward a full product line. **B1**

Plough: Rapid earnings rise of this smaller company has reflected active acquisition program in the toiletries and proprietary drug fields. Company also owns radio stations and produces household products. **C1**

Rexall: Large producer of pharmaceuticals and toiletries. Better earnings in recent years due largely to eliminating marginal stores, growing position in ethical drugs and plastic wares. Joint polyethylene venture with El Paso Natural Gas. **B2**

Richardson-Merrell (formerly Vick): Large producer of proprietary cold remedies with growing position in ethical and veterinary drugs. Record of growth good. **B1**

Schering: Company is attempting to broaden product base and sustain position in hormones. Competitive products and higher costs have caused earnings to decline, since 1957. **B4**

Smith, Kline & French: Major producer of mental health drugs and tranquilizers. Past record of earnings growth, but recently under pressure from competitive product introductions. **A4**

Sterling Drug: Important producer of proprietary and ethical drugs including Bayer Aspirin. Strong position in foreign markets. Good record of moderate growth in sales and earnings. **A1**

Syntex: Producer of bulk steroid hormone intermediates. Conducting research program with Eli Lilly. After deficit, in 1959 company now showing modest profit. Stock is highly speculative. **C3**

Upjohn: Full-line drug house with excellent record of growth. Important in ethical drugs, including antibiotics, hormones and nutritional products. Company has enjoyed one of the best earnings records in history, due largely to successful research program. **A1**

Warner-Lambert: Primarily a producer of proprietary drugs, toiletries and cosmetics, with a growing ethical division. **B2**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from lows. 4—Lower earnings trend.

Aiming for a Bullseye Against Cancer, Heart Disease

Further removed from solution (in the opinion of many) is cancer in its numerous forms. Here the subtle differences between malignant and health cells go way beyond the basic scientific knowledge that now exists. To attack this, vast sums of money are being spent to elaborate the basic chemistry of living processes. Impatient, the scientist also tries a great many shots in the dark (screening programs) in the hope of a lucky bulleye and a giant step forward. While no bullseyes have been scored so far, there have been a number of encouraging near misses. **Lilly, Upjohn** and **American Cyanamid** are believed to have some of the largest privately financed cancer research programs along with a great many other companies participating in government sponsored projects.

Heart and vascular disease research is also proceeding on many fronts. Here, however, we have some products that are already of benefit together with others in active stages of development. For example, Merck's Diuril was certainly a major advance in the treatment of congestive heart failure and edema. Whiile many possible causes exist for heart disease the problem of the accumulation of certain fatty deposits (such as cholesterol) is receiving much attention. **Richardson-Merrell's** MER-29, **Baxter's** Coloxin and nicotinic acid can reduce the cholesterol content in the blood. Diets low in fats or containing a higher ratio of liquid to solid fats can also achieve this effect. Whether any of these reduce the fatty deposits in arteries or lower the incidence of heart disease still remains an unanswered question. For the future modifications of female sex hormones, new anticoagulants and clot dissolving chemicals may well yield important new products for the drug industry.

Like most research the truly great discoveries are often unanticipated. Knowing this the investor frequently chooses the large, broadly diversified companies with research programs in many areas; the previous success of Upjohn, Merck and Lilly proves the point. However, since the fortunes of research are fickle and a big product can be a giant-maker, small companies often have unusual speculative appeal.

Important New Products Introduced Last Year

Although no financially significant medical breakthroughs occurred in 1960, several important new products were marketed. **Hoffman LaRoche's** Librium showed the largest sales gain and cut heavily into the tranquillizer market. **Richardson-Merrell's** MER-29 reached an estimated $5-8 million sales level. **Bristol's** Syncillin and the more recently introduced Staphcillin (administered by injection for use ony in cases of resistant staphylococcus infections) cut sharply into the penicillin specialties market served by Lilly and Abbott. **Parke Davis'** Humatin was also an important new product. **Upjohn's** Provera is thought to have gained on both Enovid and Norlutin where a pure progesteronal agent is required. Enovid is increasing in volume and has become one of **Searle's** major products, as has Aldactone. In 1960 Searle secured approval for the use of Enovid as an oral contraceptive. Recently a lower dosage form was approved which reduces substantially the cost to the consumer. Both Johnson & Johnson (Norlutin) and Upjohn (Provera combined with an estrogen) are close behind. **Upjohn's** new weight reducing agent Didrex makes an excellent companion product for Orinase which is still increasing in volume despite some secondary failures. **Parke Davis** has introduced its new anabolic agent, Adroyd. The removal of folic acid as an ingredient in over-the-counter vitamins adversely affected **Merck's** business.

Comprehensive Statistics

Figures are in million dollars except where otherwise stated.	Abbott Laboratories
CAPITALIZATION:	
Long Term Debt (Stated Value)	$ 2.9[1]
Preferred Stocks (Stated Value)	$ 7.5
No. of Common Shares Outstanding (000)	3,822
Capitalization	$ 39.5
Total Surplus	$ 63.0
INCOME ACCOUNT: Fiscal Year Ended	12/31/60
Net Sales	$125.9
Deprec., Depletion, Amort., etc.	$ 3.5
Income Taxes	$ 9.9
Interest Charges, etc.	—
Balance for Common	$ 12.0
Operating Margin	17.8%
Net Profit Margin	9.8%
Percent Earned on Invested Capital	12.4%
Earned Per Common Share	$ 3.16
Cash Earnings Per Share	$ 4.15
BALANCE SHEET: Year Ended	12/31/60
Cash and Marketable Securities	$ 16.7
Inventories, Net	$ 28.4
Receivables, Net	$ 26.8
Current Assets	$ 72.0
Current Liabilities	$ 31.7
Working Capital	$ 40.3
Current Ratio (C. A. to L.)	2.2
Fixed Assets, Net	$ 55.4
Total Assets	$134.3
Cash Assets Per Common Share	$ 4.38
Inventories as Percent of Sales	22.6%
Inventories as % of Current Assets	40.0%

*—Statistical data on other leading companies have not been included because recent balance sheet figures have not been released yet.

Growth Rate Slowed Down

Ethical Drugs — Sales here and abroad by U.S. companies are estimated to have increased only about 3-4% in 1960. For 1961 a more normal gain of 7-8% is anticipated. The decline in general business activity that started in the second quarter affected these companies to varying degrees. A number experienced declines in sales in May, June and July with a recovery in August. For other companies the declining trend carried through the entire latter half of the year.

Regulatory Activities

In addition to the policy of inventory liquidation pursued by many retailers, there appears to have been some contraction in the market for certain of the very potent drugs, due to the publicity given by the Kefauver investigation to possible side reactions.

In particular, Parke Davis' chloromycetin and cer-

Comparing Position of Leading Drug Companies *

Johnson & Johnson	Merck & Co.	Norwich Pharmacal	Parke Davis & Co.	Pfizer (Chas.) & Co.	Rexall Drug & Chemical	Schering Corp.	Smith Kline French Lab.	Sterling Drug	Upjohn Co.
—	$ .6	—	—	$ 27.6	$ 38.7	$ .1	—	$ 22.9	—
	$ 12.0	—	—	$ 6.4	—	$ 8.3	—	—	—
5,9[illegible]4	10,666	3,846	14.852	16,548	4,104	3,996	14.641	7,941	14,057
$ 3[illegible].5	$ 14.3	$ 2.4	$ 14.9	$ 39.6	$ 49.0	$ 12.4	$ 1.6	$ 62.6	$ 14.0
$23[illegible].7	$172 4	$ 21.7	$135.3	$162.7	$ 76.5	$ 55.9	$ 80.0	$ 61.1	$124.2
12/3[illegible]/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
$30[illegible].5	$218.1	$ 45.1	$200.0	$269.3	$242.5	$ 82.8	$144.5	$218.5	$159.4
$ 1[illegible].5	$ 9.9	$ .6	$ 5.1	$ 8.3	$ 3.8	$ 2.8	$ 2.7	$ 3.3	$ 5.4
$ 1[illegible].3	$ 21.4	$ 5.8	$ 28.3	$ 12.6	$ 8.4	$ 7.5	$ 27.6	$ 23.0	$ 22.4
—	—	$ .1	—	$ 6.2	$ 1.8	—	—	$ .9	—
$ 1[illegible].6	$ 27.4	$ 5.9	$ 30.4	$ 26.0	$ 9.3	$ 9.8	$ 24.0	$ 14.2	$ 22.7
[illegible].7%	20.5%	25.8%	28.1%	14.2%	8.1%	15.8%	34.8%	20.1%	28.3%
[illegible]1%	12.7%	13.1%	15.2%	9.7%	3.8%	11.9%	16.6%	10.1%	14.3%
[illegible].5%	14.9%	24.6%	20.2%	15.3%	10.8%	14.4%	29.4%	22.0%	16.4%
$ [illegible].63	$ 2.57	$ 1.55	$ 2.05	$ 1.57	$ 2.28	$ 2.36	$ 1.64	$ 2.80	$ 1.62
$ [illegible].39	$ 3.54[2]	$ 1.71	$ 2.39	$ 2.09	$ 3.20	$ 3.17	$ 1.88	$ 3.21	$ 2.00
12/3[illegible]/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
$ 1[illegible].2	$ 40.5	$ 9.1	$ 54.0	$ 24.2	$ 24.3	$ 32.1	$ 35.7	$ 18.8	$ 23.0
$ 5[illegible].7	$ 44.0	$ 4.6	$ 44.1	$ 71.2	$ 48.6	$ 13.9	$ 13.6	$ 40.5	$ 18.6
$ 2[illegible].6	$ 19.0	$ 7.8	$ 32.1	$ 45.7	$ 29.5	$ 12.4	$ 11.6	$ 28.5	$ 29.3
$10[illegible].8	$141.8	$ 22.1	$135.2	$141.2	$102.5	$ 59.4	$ 62.4	$ 95.7	$ 81.0
$ 2[illegible].9	$ 33.3	$ 7.1	$ 59.7	$ 62.7	$ 31.5	$ 15.1	$ 26.9	$ 35.4	$ 19.0
$ 7[illegible].9	$108.5	$ 15.0	$ 75.5	$ 78.5	$ 71.0	$ 44.3	$ 35.5	$ 60.3	$ 62.0
[illegible].8	4.2	3.1	2.2	2.2	3.2	3.9	2.3	2.7	4.2
$ 6[illegible].3	$ 77.5	$ 8.2	$ 61.9	$111.5	$ 35.4	$ 23.8	$ 34.1	$ 42.7	$ 75.4
$18[illegible].3	$224.4	$ 31.2	$217.9	$263.5	$158.7	$ 84.1	$109.3	$165.5	$158.0
$ [illegible].23	$ 3.80	$ 2.37	$ 3.65	$ 1.46	$ 5.92	$ 8.05	$ 2.44	$ 2.36	$ 1.63
17.5%	20.2%	10.2%	22.0%	26.4%	20.0%	16.8%	9.4%	18.5Z	11.6%
5[illegible].2%	31.1%	20.9%	32.6%	50.4%	47.4%	23.4%	21.8%	42.3%	22.9%

[1]—For subsidiaries.
[2]—Includes obsolesance.

tain steroid drugs may have been affected by these hearings. The situation regarding chloromycetin still remains somewhat uncertain due to the existence of two implied warranty suits and the New Food and Drug Administration (FDA) monograph that places greater emphasis on the possible occurrence of adverse blood disorders.

Another indication of the increase in regulatory activity is the suspension of **Norwich's** Altafur New Drug Application and **Hoffman LaRoche's** decision to remove Marsilid from the market, after a discussion with the FDA. **Public statements to the contrary, it appears as though the FDA in the future will be less likely to approve new drugs that do not represent a significant improvement over existing products.**

There has been a great deal of discussion concerning a slowdown of FDA approval of new drug applications. The loudest complaints have come from smaller companies who need the lead time in order to make a major market penetration.

Indications are that Senator Kefauver's subcommittee will not schedule further sessions to investigate particular products but instead will hear opinions from the American Medical Association. Other likely subjects are drug counterfeiting (a serious industry problem) and the "financial activities" of some drug companies. As the result of last year's hearings a number of legislative proposals have been made. Enactment in this session of Congress seems reasonable for programs that will give medical aid to the aged and provide closer government supervision of drug manufacturing. Less likely, primarily because of the broad implications for all American industry, are mandatory patent licensing and profit regulating proposals.

In summary, the impact should be heaviest on the small producer and the changing policies of enforcement and regulation probably will be more significant than the legislation itself.

Heavy Distribution Costs

Since distribution costs (retailer and wholesaler markups) represent more than 50% of the final cost to the consumer, considerable pressure from many sources is being exerted to lower these costs. First, as increasing amounts of drugs are sold direct to large retailers, clinics, hospitals, labor unions and business, the wholesaler's position is weakened. Secondly, local retail drug price schedules are being attacked in the courts. Thirdly, there is a growing feeling that ways must be found for the welfare patient, and perhaps those to be covered by the proposed medical aid to the aged program, to circumvent much of this distribution cost. The problem is very much a part of the whole socialized medicine discussion and will probably not be resolved quickly.

Tax Revision May Hurt

Another development within the governmental sphere that may affect *(Please turn to page 106)*

Part Nine of Our . . .

Special Study of Major Industries

A Close Look at the . . .

PAPER INDUSTRY

— And position and prospects for the individual companies

By RAYMOND E. CHRISTOPHER

- **Realistic appraisal of the various branches of the Paper Industry looking to 1961**
- **Companies involved — their earnings-dividend outlook and investment position today**

LAST year was a disappointing one for much of the paper industry. Production (about 34.3 million tons) and apparent consumption (about 38.9 million tons) rose as usual with each reaching new highs 1% above their 1959 levels. Costs and expenses also climbed and, more important, capacity rose as new facilities came on stream. Unfortunately for the industry, prices did not advance to any extent. The result was a squeeze on profit margins and lower earnings for most companies. A glance at the statistical table accompanying this article will reveal the extent to which earnings of the leading companies dropped off.

Thus far in 1961 there seems little reason to expect early restoration of the papermakers good spirits. While sales and physical volume will probably continue to rise, the outlook for near-term earnings recovery is less optimistic. Some indication of the industry's view of 1961 prospects is revealed by two recent events. Reporters at the American Paper and Pulp Association's annual Paper Week sessions held in New York in February found that paper company executives held out little hope of any lessening of the competitive pressure. Many of those consulted expected expenses would continue upward but that it would be difficult if not impossible to offset higher costs with adequate price increases.

Statements in the proxy material furnished shareholders by Champion Paper & Fibre in connection with the merger of Carpenter Paper point up the effects of excess capacity on earnings. After citing the need to diversify in order to improve earnings as a principal reason for the proposed merger, Champion referred to the substantial amount of new capacity coming into place over the next two

Comparative Earnings and Dividend Records of Leading Paper Companies

	Earnings Per Share 1958	Earnings Per Share 1959	Earnings Per Share 1960	Cash Earn. Per Share 1960	Dividends Per Share 1958	Dividends Per Share 1959	Dividends Per Share Indic. Current Div. †	Recent Price	Div. Yield	Price Range 1960-61
Champion Paper & Fibre	$1.64	$1.98	$1.75[1]	$ *	$1.20	$1.20	$1.20	33	3.6%	42⅝- 24
Container Corp. of Amer.	1.41	1.83	1.57	2.80	1.00	1.00	1.00	28	3.5	29½- 20⅛
Crown Zellerbach	2.32	2.76	2.81	4.69	1.80	1.80	1.80	56	3.2	58 - 39¾
Federal Paper Board Co.	3.74	4.12	2.86	6.66	2.00	2.00	2.00	40	5.0	45 - 33
Fibreboard Paper Products	2.81	2.73	1.16	4.22	1.20[3]	1.25[3]	1.00	34	2.9	47 - 24¼
Great Northern Paper	.64	1.78	2.99	9.14	.60	.60	1.00	68	1.4	68½- 37
Hammermill Paper Co.	2.12	2.45	2.18	*	1.12	1.00[3]	1.20[3]	29	4.1	32⅞- 26
International Paper	1.82	2.07	1.74	3.21	1.00[3]	1.00[3]	1.05	32	3.2	45½- 28⅜
Kimberly-Clark Corp.	2.92	3.01	3.51	*	1.80	1.80	1.80	92	1.9	93 - 62¼
KVP Sutherland Paper	2.30	2.12	2.47	4.84	2.00[4]	1.85[4]	1.40	36	3.9	38½- 25
Lily-Tulip Cup Corp.	1.88	2.07	2.05[1]	*	.90	.97	1.00	58	1.7	61 - 46¼
Mead Corp.	2.23	2.64	2.58	4.98	1.62	1.70	1.70	39	4.3	48 - 31½
Minnesota & Ontario Paper	1.95	2.30	2.27	4.13	1.60	1.60	1.60	32	50	34 - 28
Oxford Paper	2.13	1.77	4.30[2]	8.55[2]	1.75[3]	1.00	1.00	30	3.3	34½- 23⅛
Rayonier	.65	2.35	1.63	*	.50	.60[3]	.80	20	4.0	28 - 15½
St. Regis Paper	2.41	2.98	1.91	3.96	1.40	1.40[3]	1.40[3]	36	3.9	55½- 30¾
Scott Paper	2.75	3.08	3.40	5.24	2.00	2.05	2.20	106	2.0	109½- 71½
Standard Packaging	2.74	1.80	1.50[1]	*	—	—	—	26	—	36⅞- 20⅛
Union Bag-Camp Paper	2.13	2.54	2.39	3.95	1.50	1.50	1.50	37	4.0	43¼- 29⅛
West Virginia Pulp & Paper	1.78	2.21	2.07	5.35	1.50	1.20	1.20	40	3.0	56¾- 30⅛

*—Not available at time of going to press.
†—Based on latest dividend reports.
[1]—Estimated.
[2]—Includes profit from sale of timber lands.
[3]—Plus stock
[4]—Sutherland Paper Co. only.

Champion Paper & Fibre: Important factor in printing grades and food packaging. Could make good recovery in time. **B1**

Container Corporation of America: Largest integrated producer of paperboard containers. Appears fairly priced. **B1**

Crown-Zellerbach: Leading West Coast factor in paper and forest products. Modest further improvement possible this year. **A1**

Federal Paper Board: Mergers have expanded capacity and marketing area of leading producer of folding boxboard. Competition may restrict early earnings gain. **B2**

Fibreboard Paper Products: Major integrated producer of paperboard containers and building materials. Earnings should show some recovery from depressed 1960 level. **B4**

Great Northern Paper: Largest domestic newsprint producer. Plant improvements could result in further earnings gain. **B1**

Hammermill Paper: Leading producer of fine paper. Unlikely to show much improvement this year. **B2**

International Paper: Largest paper company, participates in almost all phases of industry. Competition and unfavorable conditions in lumber industry will restrict earnings. **A2**

Kimberly-Clark: Unfavorable third quarter may limit earnings gain this year but position in consumer products should allow resumption of upward trend. **A1**

KVP Sutherland Paper: Record of predecessor companies unimpressive. Merger may result in improvement in time. **C3**

Lily-Tulip: Important factor in paper cups and food packages. Earnings should improve in 1961. **A2**

Mead Corporation: Integrated producer of printing grades and paperboard products. Digestion of numerous acquisitions will help earnings in time. **B2**

Minnesota & Ontario Paper: Producer of newsprint, specialty paper and building materials in U.S. and Canada. Dividend affords liberal return. **B2**

Oxford Paper: Major producer of printing grades. Start-up expenses may limit near-term earnings gain. **B3**

Rayonier: World's largest pulp company. Recent price cut depressed earnings, but substantial reserve capacity could bring dramatic earnings gain under improved conditions. **C4**

St. Regis Paper: Major diversified company. Competition depressed 1960 earnings. Early improvement unlikely. **B2**

Scott Paper: Leading position in consumer products should permit continuation of excellent growth record. **A1**

Standard Packaging: Integrated manufacturer of packaging materials. Assimilation of acquisitions should bring higher earnings but potential dilution from convertible securities substantial. **C1**

Union Bag-Camp Paper: Major integrated producer of Kraft paper and board. Anti-trust charges cloud future. **B2**

West Virginia Pulp & Paper: Important producer of white printing and converting grades and kraft. Start-up expenses will probably depress 1961 earnings. **B4**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from lows. 4—Lower earnings trend.

years. In view of the generally unsatisfactory conditions that now prevail and the likelihood that intensified competition from new facilities will prevent any early amelioration of these conditions, Champion's management concluded that investment of the company's funds in other phases of the paper industry could not be justified and, therefore, the merger route was the only feasible means of expansion at present.

Despite the rather gloomy near-term prospect for the bulk of the industry, there are, of course, certain sectors of the industry and individual companies that could do fairly well. End uses for paper vary widely, and conditions of supply and demand in one phase of the paper trade may bear little resemblance to those in another. With this in mind, it might be well to examine in more detail the outlook for the several markets.

Newsprint — This important field is the only one in which imports are a factor of substance. Over the past seven or eight years, newsprint production has shown the best growth rate in the paper industry with United States output increasing about three times as fast as consumption.

The explanation of this seeming paradox is that the American market is supplied by U.S., Canadian and Scandinavian mills, and domestic producers have been enlarging their share of the market in recent years although they still supply considerably less than half of total requirements. **Last year's output ran ahead of the paper industry as a whole with newsprint shipments up more than 3%. There were no major additions to capacity and only minor additions are scheduled for 1961.**

Consumption during 1961 appears likely to be about in line with last year's, but an early end to

the recession and a lift in advertising lineage could result in some increase. Assuming domestic mill output shows only slight change from 1960's approximately two million tons, operating rates will be at about 85% of capacity. Under these conditions, prices, which have been stable since 1947, are unlikely to be raised.

About 70% of U.S. newsprint requirements are supplied from Canada where **Abitibi Power and Paper, International Paper, Consolidated Paper, MacMillan, Bloedel & Powell River, Price Brothers, Bowater** and **St. Lawrence** are the largest factors.

Great Northern Paper with operations in Maine is the largest domestic producer. This company's earnings scored an excellent recovery during 1960 from 1959's depressed levels, and the company is in a good position to record further gains. Operations in the past were hampered by obsolete plant and dependence on water power, which necessitated severe cutbacks in output during periods of drought. An upgrading of plant facilities and installation of steam generating equipment has alleviated these conditions to a considerable extent. As Great Northern still has substantial reserve capacity any further improvement in sales should result in a leveraged effect on net. Last year's recovery was reflected in the market action of the stock which now sells at its highest price in over two years but still well under its all-time high of 108 reached in 1956. Other leading American companies with an interest in newsprint either here or in Canada include **Crown Zellerbach, Kimberly-Clark, Minnesota & Ontario Paper** and **St. Croix Paper.**

Comprehensive Statistics Comparing

Figures are in million dollars except where otherwise stated. *	Container Corp. of Amer.	Crown Zellerbach	Fibreboard Paper Products
CAPITALIZATION:			
Long Term Debt (Stated Value)	$ 43.5	$ 90.0	$ 65.0
Preferred Stocks (Stated Value)	$ 7.0	$ 26.9	—
No. of Common Shares Outstanding (000)	10,672	13,846	1,793
Capitalization	$ 103.9	$ 186.1	$ 84.4
Total Surplus	$ 85.0	$ 307.0	$ 36.4
INCOME ACCOUNT: Fiscal Year Ended	12/31/60	12/31/60	12/31/60
Net Sales	$ 327.2	$ 553.7	$ 111.9
Deprec., Depletion, Amort., etc.	$ 12.8	$ 24.8	$ 5.5
Income Taxes	$ 18.3	$ 33.0	$ 1.7
Interest Charges, etc.	$ 1.4	$ 3.8	$ 2.9
Balance for Common	$ 16.8	$ 38.9	$ 2.0
Operating Margin	11.2%	13.1%	5.3%
Net Profit Margin	5.2%	7.2%	1.8%
Percent Earned on Invested Capital	11.7%	9.9%	3.7%
Earned Per Common Share	$ 1.57	$ 2.81	$ 1.16
Cash Earnings Per Share	$ 2.80	$ 4.69	$ 4.22
BALANCE SHEET: Year Ended	12/31/60	12/31/60	12/31/60
Cash and Marketable Securities	$ 20.1	$ 42.1	$ 12.1
Inventories, Net	$ 32.4	$ 97.2	$ 18.8
Receivables, Net	$ 28.1	$ 51.6	$ 16.6
Current Assets	$ 80.6	$ 200.9	$ 48.9
Current Liabilities	$ 44.3	$ 57.2	$ 8.8
Working Capital	$ 36.3	$ 143.7	$ 40.1
Current Ratio (C. A. to L.)	1.8	3.5	5.5
Fixed Assets, Net	$ 150.6	$ 345.2	$ 82.0
Total Assets	$ 240.0	$ 575.2	$ 133.4
Cash Assets Per Common Share	$ 1.88	$ 3.04	$ 6.76
Inventories as Percent of Sales	9.9%	17.5%	16.7%
Inventories as % of Current Assets	40.2%	48.6%	38.4%

*—Statistical data on other leading companies have not been included because recent balance sheet figures have not been released yet.

Paperboard — This broad group comprises about half of total paper production with the bulk of output devoted to packaging. Output of 15.6 million tons last year recorded a nominal increase from 1959's 15.5 million tons.

Operations were at an average rate of 89% of capacity compared with 92% a year earlier. Total paperboard production has been growing about in line with the general economy in recent years. Prospects for the several subdivisions of the paperboard field vary somewhat, but over-all production will probably rise modestly this year. As capacity will also rise, operating rates are likely to decline, compounding the difficulties in obtaining worthwhile price increases. To a greater extent than for the paper field as a whole, paperboard demand is receptive to fluctuations in the business cycle. Currently, inventory positions are relatively low. Any substantial rise in demand for goods will be quickly reflected in the paperboard field in the form of new orders for packaging materials.

One of the notable features of this industry has been a wave of mergers as producers strove for vertical integration with paperboard manufacturers acquiring converters and converters acquiring timberlands and papermaking facilities. The entry into paper board production of firms thought of primarily as lumber companies has intensified competition. Companies such as **Weyerhaeuser, Georgia-Pacific** and **Boise Cascade** have been constructing paper machines in order to make full use of wood chips, scrap, branches and other parts of the tree unsuitable for building materials.

International Paper, which participates to some extent in almost all aspects of the paper industry, is an important paperboard producer. Earnings suffered last year from excess capacity in its paper lines while the decline in housing starts and depressed lumber prices cut earnings of the important Long Bell division. Presently there appears little prospect of improvement during 1961, but the company's well entrenched position and vast timberland holdings, which will appreciate in value over the years, makes the stock a suitable holding for the long pull.

Crown Zellerbach also produces most grades of paper in addition to being a substantial factor in the lumber and plywood fields. Crown was one of the few companies able to increase earnings last year. The stock, however, has had a good run-up and at present seems fairly fully priced in relation to the rather limited further improvement likely during 1961.

With more than fifteen mills and over forty converting plants, **Container Corporation of America** is the largest integrated manufacturer of paperboard and converted products. Container also has

Position of Leading Paper Companies '

	Great Northern Paper	International Paper	KVP Sutherland Paper Co.	Mead Corp.	Minnesota & Ontario Paper	Oxford Paper	St. Regis Paper	Scott Paper	Union Bag-Camp Paper	West Virginia Pulp & Paper
	\$ 37.1	—	\$ 8.9	\$ 47.0	\$ 14.0	\$ 22.1	\$ 89.2	\$ 89.2	\$ 48.9	\$ 66.0
	—	\$ 18.4	—	\$ 4.5	—	\$ 10.1	\$ 9.2	\$ 11.1	—	\$ 7.7
	,039	40,827	2,221	5,254	2,573	1,006	11,721	8,035	7,773	5,145
	\$ 63.1	\$ 160.1	\$ 20.0	\$ 157.3	\$ 20.4	\$ 47.3	\$ 157.0	\$ 190.9	\$ 100.8	\$ 154.6
	\$ 37.5	\$ 674.9	\$ 64.1	\$ 56.8	\$ 71.9	\$ 34.1	\$ 345.0	\$ 101.6	\$ 121.9	\$ 95.2
	12/31/60	12/31/60	9/30/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
	\$ 62.0	\$1,012.6	\$ 126.9	\$ 338.7	\$ 87.5	\$ 74.2	\$ 536.2	\$ 313.2	\$ 212.9	\$ 250.2
	6 6.4	\$ 59.3	\$ 5.3	\$ 12.4	\$ 4.8	\$ 3.7	\$ 24.5	\$ 14.4	\$ 12.1	\$ 16.5
	\$ 2.7	\$ 68.8	\$ 5.5	\$ 14.2	\$ 6.5	\$ 2.9	\$ 18.8	\$ 25.5	\$ 18.7	\$ 9.6
	\$ 1.7	—	\$ .4	\$ 2.0	\$ .6	\$ 1.0	\$ 3.7	\$ 2.8	\$ 2.3	\$ 2.3
	\$ 3.1	\$ 70.9	\$ 5.4	\$ 13.5	\$ 5.8	\$ 4.3	\$ 21.9	\$ 27.3	\$ 18.6	\$ 10.6
	10.5%	13.7%	8.2%	8.0%	14.1%	9.0%	7.2%	18.2%	17.2%	8.5%
	5.0%	7.0%	4.2%	4.0%	6.6%	6.5%	4.0%	8.8%	8.7%	4.4%
	4.9%	8.5%	7.2%	8.2%	7.4%	8.1%	5.3%	13.6%	10.7%	6.0%
	\$ 2.99	\$ 1.74	\$ 2.47	\$ 2.58	\$ 2.27	\$ 4.30	\$ 1.91	\$ 3.40	\$ 2.39	\$ 2.07
	\$ 9.12	\$ 3.21	\$ 4.84	\$ 4.98	\$ 4.13	\$ 8.55	\$ 3.96	\$ 5.24	\$ 3.95	\$ 5.35
	12/31/60	12/31/60	9/30/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
	\$ 14.4	\$ 46.8	\$ 9.8	\$ 17.9	\$ 8.7	\$ 6.3	\$ 25.3	\$ 9.2	\$ 10.5	\$ 32.5
	\$ 11.0	\$ 168.4	\$ 22.6	\$ 35.7	\$ 18.9	\$ 9.9	\$ 91.9	\$ 54.1	\$ 22.5	\$ 28.7
	\$ 6.5	\$ 86.6	\$ 12.6	\$ 33.2	\$ 7.8	\$ 5.1	\$ 57.4	\$ 24.6	\$ 18.0	\$ 14.9
	\$ 33.1	\$ 301.9	\$ 45.1	\$ 88.7	\$ 36.7	\$ 21.8	\$ 182.2	\$ 92.8	\$ 51.0	\$ 77.5
	\$ 9.0	\$ 85.7	\$ 14.8	\$ 32.7	\$ 14.1	\$ 6.1	\$ 60.4	\$ 45.1	\$ 11.1	\$ 20.5
	\$ 24.1	\$ 216.2	\$ 30.3	\$ 56.0	\$ 22.6	\$ 15.7	\$ 121.8	\$ 47.7	\$ 39.9	\$ 57.0
	3.6	3.5	3.0	2.7	2.6	3.5	3.0	2.0	4.6	3.7
	\$ 84.5	\$ 573.4	\$ 49.2	\$ 145.4	\$ 72.3	\$ 63.6	\$ 290.8	\$ 179.6	\$ 131.8	\$ 169.1
	\$ 119.1	\$ 930.0	\$ 99.1	\$ 251.4	\$ 111.9	\$ 87.9	\$ 562.5	\$ 337.7	\$ 234.6	\$ 270.3
	\$ 13.83	\$ 11.47	\$ 4.41	\$ 3.42	\$ 3.41	\$ 6.27	\$ 2.16	\$ 1.15	\$ 1.34	\$ 6.32
	17.8%	16.6%	17.8%	10.5%	21.7%	13.3%	17.1%	17.3%	10.5%	11.4%
	33.3%	55.7%	50.2%	40.2%	51.7%	45.9%	50.4%	58.3%	44.1%	37.0%

extensive foreign operations. Earnings were off last year and only moderate if any improvement seems probable this year. At current levels, however, the stock seems reasonably priced.

White Paper — Embracing such diverse items as sanitary and tissue paper, printing paper and fine paper, the white paper field as a group has shown better than average growth in recent years. Sanitary and tissue recorded the best performance, advancing at almost twice the rate of the entire industry. Production was up about 6% in 1960 and another increase is possible in 1961. Capacity is expected to rise about 4% this year.

Scott Paper and **Kimberly-Clark** are the dominant companies in this field. Their concentration on brand named consumer products has won them enviable positions when compared with the commodity nature of most of the paper products sold by companies engaged in other phases of the industry. Scott made an excellent showing last year with earnings up from \$3.08 to \$3.40 per share. Another good lift is likely this year. The stock, which has been a rewarding holding over the years, is now near its all-time high and appears to give generous recognition to the company's attractive future prospects.

Kimberly-Clark's third quarter earnings were off sharply as the company felt the pressure of rising costs and start-up expenses. In addition, sharp competition in the sanitary napkin field resulted in a 4% price cut in August. Final quarter results may make a better comparison, and earnings for the year ending April 30 should be in line with the \$3.51 per share earned in fiscal 1960. Kimberly-Clark common is also near its all-time high and appears fully priced.

Printing and book papers have grown at about the same rate as the economy and as the paper industry as a whole. Last year their production rose moderately. A further increase is probable this year, but increased capacity may bring a decline in operating ratios. Looking ahead a few years demand for book paper, particularly textbook grades, could show a good increase.

Champion Paper, Mead, Oxford, S. D. Warren, West Virginia and others are important factors in this field.

Writing papers account for about 80% of the output of the fine paper field and thin papers such as cigarette papers for most of the remainder. Like printing paper, production was up moderately last year, and the improvement should carry over thru 1961. A sharp increase in capacity, however, will probably adversely effect operating rates and may squeeze margins.

Hammermill Paper and the **Eastern Corporation** division of Standard Packaging are among the leading producers of fine paper.

Kraft — Kraft paper, used largely in the manufacture of bags, wrapping materials and the outer surface of paperboard, is the most important division of the coarse paper field which also includes glassine, greaseproof and vegetable parchment. Growth over the recent *(Please turn to page 105)*

FOR PROFIT AND INCOME

April Markets

The theoretical "odds" are that stock prices should rise on balance in any given month in many more years than not, simply because bull markets have a longer duration that bear markets. Actually, the record shows a notably wide preponderance of gains only in the months of January, July, August and December. There is no "seasonal tendency" in April; and on a long-term basis it has been little better than a stand-off month. There has been some April net gain for the industrial average in 33 of the last 64 years, some net decline in 31 years. For rails, the record shows ground gained in 30 years, given up in 34 years.

Rail Speculation

The six-session March 16-21 spurt of 7.72 points in the rail average, taking it above the June, 1960 rally top in a Dow-Theory "confirmation" of a bull market, got considerable attention—before a sizable part of it was snuffed out by reaction. It can be explained simply as a speculative play, probably mainly by professional traders, on the reasoning that the group had lagged behind the industrial list too long and that it figured to benefit, along with the general run of cyclical-type stocks, from anticipated business revival in coming months and in 1962. It remains an ailing, inadequately profitable industry. But the worst may have been seen with respect to trucking competition and government regulatory policies. There is a slow, but healthy, trend toward cost-saving mergers. Few rails qualify for investment. Speculative risks in most are relatively large. Some of the best, all offering good current yields from well-covered dividends, are Atchison, Chesapeake & Ohio, Kansas City Southern, Norfolk & Western, Southern Pacific and Union Pacific.

Mutual Funds

Some of the boom has gone out of the mutual fund business because there is now a more pronounced uptrend in redemptions of shares than in sales. The latter amounted in round figures to $213 million in February, off

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Aluminum Ltd.	Year Dec. 31	$1.28	$ .79
Cincinnati Gas & Elec.	Year Dec. 31	2.23	1.96
Pitney-Bowes, Inc.	Year Dec. 31	1.32	1.05
Columbia Gas System	Year Dec. 31	1.53	1.37
Cluett, Peabody & Co.	Year Dec. 31	4.78	3.60
Halliburton Co.	Quar. Dec. 31	.94	.82
Archer-Daniels-Midland	6 mos. Dec. 31	1.47	1.23
Greyhaund Corp.	Quar. Dec. 31	.30	.26
Monarch Machine Tool	Year Dec. 31	.99	.44
Universal Match Corp.	Year Dec. 31	1.20	1.08

from $243 million in January and from $215 million a year ago; but redemptions rose to $107 million, from $100 million in January and $66 million a year ago. Net sales were down nearly 29% from February, 1960, despite a strong and active stock market. Thus, February redemptions rose to about 50% of sales, from 42% in January and only 30% a year earlier. Continuation of this trend would make the funds less of a market factor.

Cross-Currents

In recent days up to this writing the following stock groups have shown more strength than the general market: aircraft, air transport, aluminum, automobiles and auto parts, copper, finance companies, food stores, food brands, department stores, farm equipment, machine tools, metal fabricating, publishing, sulphur, textiles, tires and utilities. The following groups have lagged: coal, drugs, electrical equipment and appliances, gold mining, meat packers, motion pictures, office equipment, paper, TV-electronics, steel and sugars. However, various cross-currents can change quickly in a churning market over-due for a sizable technical reaction anyway and now forced, as we write, to take note of the uncertain course of events and possible war threat resulting from the Communist moves in Laos.

Tobaccos

Both the cigarette and cigar stock groups have widely outgained the industrial average in 1960-1961 to date, as well as for the whole period since 1957, with Reynolds Tobacco outstanding in the cigarette group, Consolidated Cigar and General Cigar the big gainers in their group. Readers who have followed our recommendations on tobacco equities have fared very well. It should be noted, however, that the large earlier under-valuation of these issues no longer exists. Therefore, although the outlook remains favorable, they can hardly continue to outgain the marget to anything like the extent that has been seen in recent months and years, if at all. There is now more to be said for retaining positions in Reynolds and American Tobacco than for new buying. Lorillard, with likely 1961 earnings around $4.15-$4.20 a share, yielding nearly 4.7% on a $2.20 dividend rate, appears moderately under-valued around 47. In the cigar group we prefer profit taking here to any new buying.

New Highs

With the published daily lists of new highs in stocks now applying only to 1961, instead of 1960-1961—as is the rule always by mid-March—you can easily get a false picture in many cases unless you dig out older figures or run through a book of charts. The latter is the best way to see what is actually going on in stocks. The following issues in the Dow industrial average recently attained new 1961 highs but remained under—in some cases far under—their 1960 tops: Alcoa, American Can, Anaconda, Bethlehem Steel, Chrysler, du Pont, Eastman Kodak, General Motors, Goodyear Tire, Owens-Illinois Glass, Union Carbide and United Aircraft.

Textiles

Although earnings will be poor at least through the first half, the textile business appears to be at, if not past, its low point. There has been some improvement in new orders, mostly for cotton goods in anticipation of higher prices as a result of the raised Federal support level for raw cotton, to take effect next August 1. Makers mainly of cotton goods, such as Lowenstein, could have sharply higher earnings ahead—if the Government sets quota limits which would adequately restrict imports, especially from Japan. Whether it will, remains to be seen, as the whole problem is now under official study. There is less risk in shares of big, broadly-diversified producers of synthetic, cotton and woolen textiles and textile finished prducts, such as Burlington Industries and J. P. Stevens. Burlington earnings in the 1961-1962 fiscal year could be sharply above the depressed $1.70-$1.80 a share likely in the year ending next September 30. Around 20, yielding 6% on a $1.20 dividend, the stock has substantial possibilities and is recommended for speculative buying. The same is so of Stevens, which might earn only $2.20 or so a share in the fiscal year ending next October 1, but probably will maintain the $1.50 dividend. This stock, which reached 34⅞ in 1959 and 49⅜ as far back as 1951, is now at 29, yielding over 5.1%.

Another Look

The stock of Spalding (A.G.) & Bros. (probably the best known name in sports goods) was recommended here at 24 in our February 11 issue. Now at 31½, off from recent high of 33⅜, it is up over 30% in a short time. The company's outlook remains favorable, but important increase in earnings is not likely excepting over an extended period. We advise profit taking . . . Tennessee Corp. was recommended here some time ago at 40 and is now up 50%, at 60, partly due to a recent sharp spurt. That looks about high enough to us. Take profits . . . Falstaff Brewing was initially recommended here some months ago at 30 and is now up over 43% at 43⅛. The outlook is still favorable, but the stock has outrun the rising profit trend for a goodly distance ahead. We now suggest profit taking.

Coal Stocks

Reflecting the competitive inroads of oil and natural gas, out-

(Please turn to page 112)

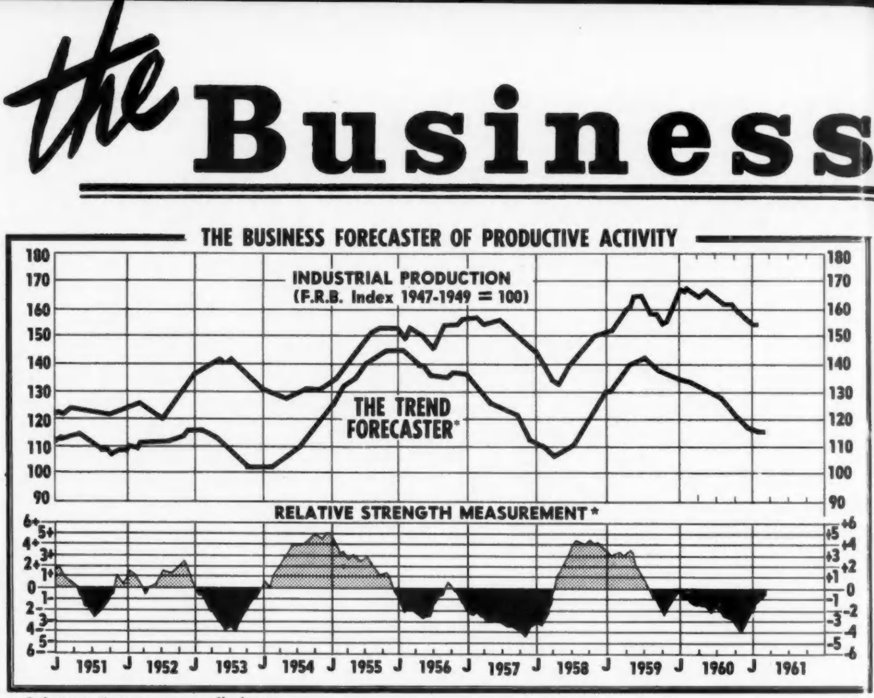
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Braniff Airways	Year Dec. 31	$ .24	$ .85
Polaroid Corp.	Year Dec. 31	2.26	2.78
Sunbeam Corp.	Quar. Dec. 31	1.23	1.70
American Cyanamid Co.	Quar. Dec. 31	.46	.57
Colgate-Palmolive Co.	Year Dec. 31	2.53	3.11
Western Union Telegraph	Year Dec. 31	1.80	2.59
Mack Trucks	Year Dec. 31	4.10	5.71
Sharon Steel Corp.	Year Dec. 31	1.02	1.94
Continental Can	Year Dec. 31	2.21	3.20
Maytag Co.	Year Dec. 31	3.26	3.92

the Business

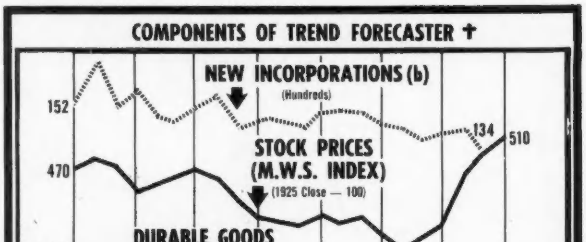
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

The general composition of trends among the eight leading indicators has continued to improve in early 1961. In the most recent periods for which data are now available, a clear majority of the series appear to be in a rising phase. Notable and sustained strength shows up in stock prices and commodity prices, while a slight upturn has occurred in housing starts, failure liabilities and, most recently, in the preliminary figures for new orders in durable goods industries. Still deteriorating are nonresidential construction contract awards, and the rate of new business incorporations.

Reflecting the improved tone of individual indicators, the Relative Strength Measurement has continued the sharp rate of improvement that began in late 1960. By February, the measure was clearly out of the range suggestive of recession; a very preliminary estimate for March indicates that the measure has returned to about zero, after having run in a negative range virtually throughout the last eighteen months. In so doing, it is signalling at least mild cyclical strength to come.

Analyst

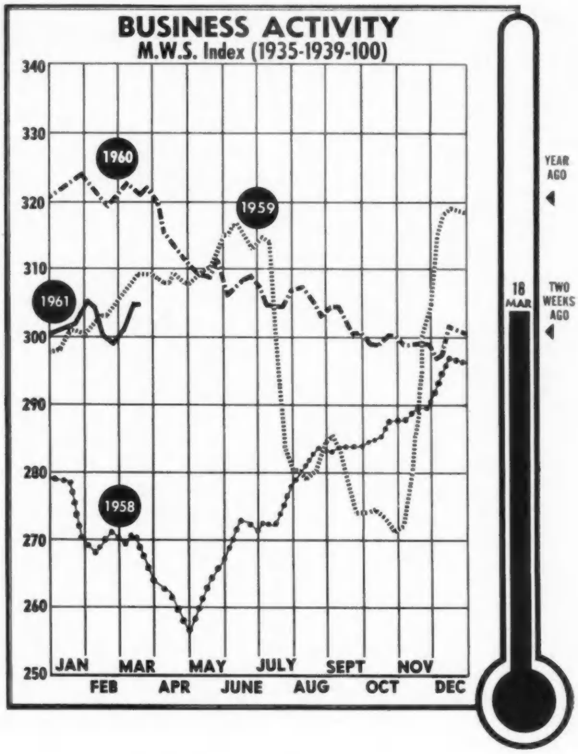
CONCLUSIONS IN BRIEF

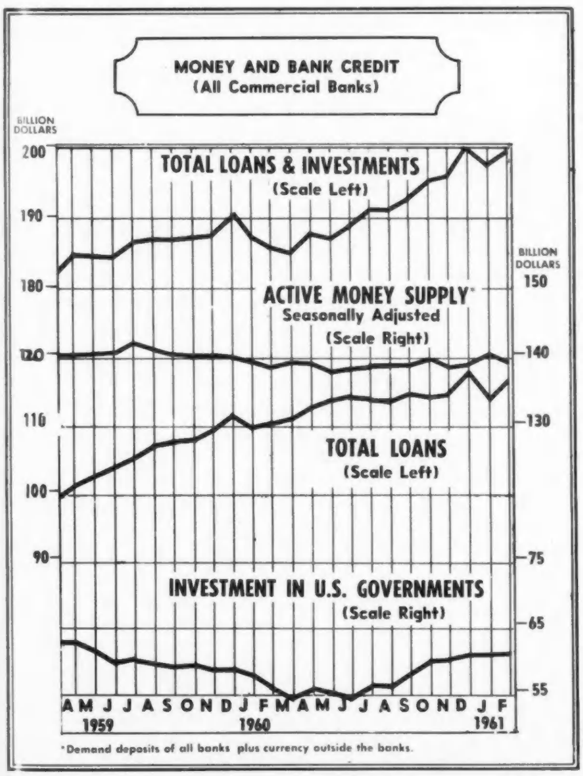
PRODUCTION—gradually firming across a fairly broad front, but no pronounced uptrend yet on the horizon. Consumer durables output and machinery ouput still stable to weak, and little strength yet apparent in soft-goods lines. On average, second-quarter production rates will be only slightly better than in the first quarter.

TRADE—Retail volume has picked up the losses attributable to bad weather earlier in the year, and has then risen seasonally toward a normal Easter peak. No splurge now or foreseeable in the second quarter, but a gradual firming in retail sales into the late spring.

MONEY & CREDIT—supply of funds now generally abundant; apart from short-term fluctuations, the trend in rates seems still downward. Mortgage rates in particular are declining slowly but steadily. Outlook; slight further decline in early spring, then stability.

COMMODITIES—prices in general have weathered recession with stamina. Raw materials prices now in a mild but persistent rise, but finished goods still stable. Lessening pressure from inventory liquidation will add further strength to prices over near term.





*Demand deposits of all banks plus currency outside the banks.

By the beginning of April, the U.S. economy had clearly taken on the mixed and indecisive appearance it usually has around a general business cycle turning point. A large proportion of major statistical measures of business conditions were doing little or nothing in the way of a trend; while small minorities of the statistics were offsetting each other in mild uptrends and downtrends.

Both employment and unemployment have apparently stabilized in past weeks, although the available monthly figures still show deterioration. On a weekly basis, unemployment insurance claims have certainly stopped rising, and appear to be behaving seasonally. Similarly, the layoff rate has stabilized and the accession rate has stopped falling. While the Government recently publicized an increase in the number of labor market areas suffering substantial unemployment, this increase was largely seasonal in nature, and in any event now appears to be over.

Production rates, too, seem to be highly stable, after almost three quarters of persistent decline. In February, the decline ended for most soft goods lines, and even for a few durables. With the automotive production rate—one of the more dramatic casualties of the recession—past its trough and beginning to recover—it is hard to see how the production index as a whole can fail to enjoy at least mild improvement in the next few months.

The aggregates of employment and output thus seem poised for a new phase of expansion. However,

(*Please turn to the following page*)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Feb.	155	155	166
Durable Goods Mfr.	1947-'9-100	Feb.	154	155	178
Nondurable Goods Mfr.	1947-'9-100	Feb.	155	155	157
Mining	1947-'9-100	Feb.	127	129	126
RETAIL SALES*	$ Billions	Feb.	17.8	17.7	18.1
Durable Goods	$ Billions	Feb.	5.5	5.5	6.0
Nondurable Goods	$ Billions	Feb.	12.4	12.2	12.1
Dep't Store Sales	1947-'9-100	Feb.	147	142	142
MANUFACTURERS'					
New Orders—Total*	$ Billions	Feb.	29.1	28.5	30.6
Durable Goods	$ Billions	Feb.	13.4	12.9	14.8
Nondurable Goods	$ Billions	Feb.	15.7	15.6	15.8
Shipments*	$ Billions	Feb.	29.0	28.7	31.6
Durable Goods	$ Billions	Feb.	13.3	13.2	15.7
Nondurable Goods	$ Billions	Feb.	15.7	15.5	15.9
BUSINESS INVENTORIES, END. MO.*	$ Billions	Jan.	91.9	92.3	90.5
Manufacturers'	$ Billions	Jan.	53.5	53.6	53.3
Wholesalers'	$ Billions	Jan.	13.2	13.2	12.7
Retailers'	$ Billions	Jan.	25.2	25.5	24.5
Dept. Store Stocks	1947-'9-100	Jan.	165	167	161
CONSTRUCTION TOTAL—†	$ Billions	Mar.	54.7	54.5	54.4
Private	$ Billions	Mar.	37.6	37.3	39.3
Residential	$ Billions	Mar.	19.9	19.8	22.4
All Other	$ Billions	Mar.	17.7	17.5	16.9
Housing Starts*—a	Thousands	Feb.	1154	1076	1367
Contract Awards, Residential—b	$ Millions	Feb.	870	974	988
All Other—b	$ Millions	Feb.	1366	1511	1252
EMPLOYMENT					
Total Civilian	Millions	Feb.	64.7	64.5	64.5
Non-farm*	Millions	Feb.	52.3	52.6	53.0
Government*	Millions	Feb.	8.7	8.6	8.3
Trade*	Millions	Feb.	11.6	11.7	11.6
Factory*	Millions	Feb.	11.5	11.6	12.5
Hours Worked	Hours	Feb.	38.8	38.8	39.8
Hourly Earnings	Dollars	Feb.	2.32	2.32	2.29
Weekly Earnings	Dollars	Feb.	90.02	90.02	91.14
PERSONAL INCOME*	$ Billions	Feb.	406	407	396
Wages & Salaries	$ Billions	Feb.	270	271	269
Proprietors' Incomes	$ Billions	Feb.	61	61	58
Interest & Dividends	$ Billions	Feb.	43	42	39
Transfer Payments	$ Billions	Feb.	31	31	28
Farm Income	$ Billions	Feb.	17	17	15
CONSUMER PRICES	1947-'9-100	Feb.	127.5	127.4	125.6
Food	1947-'9-100	Feb.	121.4	121.3	117.4
Clothing	1947-'9-100	Feb.	109.6	109.4	108.4
Housing	1947-'9-100	Feb.	132.4	132.3	131.2
MONEY & CREDIT					
All Demand Deposits*—u	$ Billions	Feb.	110.8	112.2	110.8
Bank Debits*—g	$ Billions	Feb.	97.7	97.4	98.9
Business Loans Outstanding—c, u	$ Billions	Feb.	31.2	29.9	30.2
Instalment Credit Extended*—u	$ Billions	Jan.	3.9	4.0	4.2
Instalment Credit Repaid*—u	$ Billions	Jan.	4.0	3.9	3.8
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Feb.	6.5	4.8	7.2
Budget Expenditures	$ Billions	Feb.	6.2	6.5	6.1
Defense Expenditures	$ Billions	Feb.	3.8	3.7	3.7
Surplus (Def) cum from 7/1	$ Billions	Feb.	(6.2)	(6.5)	(6.5)

PRESENT POSITION AND OUTLOOK

when one looks for the sources of demand for the impending recovery of output, there still appears to be room for intelligent caution. The principal sources of new demand on the horizon are (a) a reversal of inventory policy from liquidation to accumulation and (b) additional government spending at state and local as well as federal levels. The first of these promised stimulants to aggregate demand is of course, traditionally present in the early stages of a business recovery, as business finds its reduced level of inventories increasingly inadequate to handle a stable or rising volume of trade. At present, inventories are draining out of the business system at about $5 billion a year. Cessation of this liquidation will enlarge aggregate demand by $4 billion.

The other potential source of demand has also come to be a traditional accompaniment of a business recovery; during recession the legislative hopper always gets filled with bills to expand government spending, and existing spending authority is more rapidly converted into spending, in order to fight recession. In recent months, and in the next few months, this machinery is producing a moderate acceleration in the rate of government payments to the public, with the increase progressing at about $2 billion a quarter (annual rate). In addition, transfer payments will be amplifying the effects of the government sector in forestalling recession.

But even these combined stimuli are by themselves not enough to recreate an atmosphere of general postwar boom. For this, it will be necessary for demands from the private sector to finally awaken. For the kind of boom that will dramatically turn around the profits picture for American industry in general, the housing market must recover; the demands of consumers for automobiles and other big-ticket items must advance from their present depressed rate; and, most importantly of all, the demands of business for plant and equipment must turn around.

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1960 Quarter IV	1960 Quarter III	1960 Quarter II	1959 Quarter IV
GROSS NATIONAL PRODUCT	503.5	503.5	505.0	486.4
Personal Consumption	330.8	328.3	329.0	319.6
Private Domestic Invest.	66.0	70.8	75.5	70.8
Net Exports	4.0	3.7	2.0	—0.4
Government Purchases	102.1	100.7	98.6	96.4
Federal	53.3	52.7	51.7	52.5
State & Local	48.8	48.0	46.9	43.9
PERSONAL INCOME	408.5	408.0	404.2	389.0
Tax & Nontax Payments	50.4	50.5	49.9	46.5
Disposable Income	358.1	357.5	354.3	342.4
Consumption Expenditures	330.8	328.3	329.0	319.6
Personal Saving—d	27.2	29.2	25.2	22.8
CORPORATE PRE-TAX PROFITS		41.5	45.7	44.8
Corporate Taxes		20.3	22.3	22.1
Corporate Net Profit		21.3	23.4	22.7
Dividend Payments		14.0	13.9	13.8
Retained Earnings		7.3	9.5	8.9
PLANT & EQUIPMENT OUTLAYS	35.6	35.9	36.3	33.6

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Mar. 18	304.8	305.1	321.7
MWS Index—Per capita*	1935-'9-100	Mar. 18	218.0	218.3	233.9
Steel Production Index*	1957-'9-100	Mar. 18	84.5	84.4	139.9
Auto and Truck Production	Thousands	Mar. 25	118	100	176
Paperboard Production	Thousand Tons	Mar. 18	321	323	321
Paperboard New Orders	Thousand Tons	Mar. 18	305	328	302
Electric Power Output*	1947-'49-100	Mar. 18	277	278	277
Freight Carloadings	Thousand Cars	Mar. 18	507	493	581
Engineerings Constr. Awards	$ Millions	Mar. 23	354	382	454
Department Store Sales	1947-'9-100	Mar. 18	140	128	129
Demand Deposits—c	$ Billions	Mar. 15	60.8	59.0	60.2
Business Failure—s	Number	Mar. 16	363	318	302

PRESENT POSITION AND OUTLOOK

The prospects for these key areas are, in fact, still far from clear. The consumer durables market is heavily dependent upon the willingness of consumers to incur further debt — and the general state of the consumer sector does not portend such a return to net debt incurrence. The housing market is at least temporarily suffering from a combination of a low rate of household formation, and extremely high building costs. And the demand for capital goods, while it has not subsided as rapidly as in the preceding recession, now faces a substantial volume of idle capacity. The cash flow in the business sector has been curtailed by the downtrend of retained earnings over the past several quarters, and it may take several quarters of recovery in earnings before expansion in capital outlays becomes a reality.

Short-term prospects for the U.S. economy thus seem to suggest mild strength centered in an end of inventory liquidation, and a continuing rise in government spending. The real test of the next two quarters is whether basic private demands begin to expand.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Seasonally adjusted, annual rate. (u)—End of month data. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960-61 High	1960-61 Low	1961 Mar. 17	1961 Mar. 24
Composite Average	515.1	410.9	515.0	515.1H
4 Agricultural Implements	474.0	346.4	474.0	470.2
3 Air Cond. ('53 Cl.—100)	165.8	105.8	165.8	157.1
10 Aircraft & Missiles	1286.3	861.9	1286.3	1286.3
7 Airlines ('27 Cl.—100)	1044.6	736.7	968.3	960.3
4 Aluminum ('53 Cl.—100)	521.3	354.5	445.6	437.5
5 Amusements	389.8	209.3	389.8	386.8
5 Automobile Accessories	531.1	401.0	475.5	483.6
5 Automobiles	157.0	90.8	107.1	107.1
3 Baking ('26 Cl.—100)	44.6	34.9	43.0	42.2
4 Business Machines	1773.4	1159.1	1773.4	1747.4
6 Chemicals	809.6	657.3	797.7	797.7
3 Coal Mining	36.0	27.2	33.2	34.1
4 Communications	244.5	199.9	244.5	244.5
9 Construction	218.3	143.3	218.3	214.9
5 Container	1064.7	824.6	996.4	979.0
5 Copper Mining	347.6	275.4	327.7	325.0
2 Dairy Products	232.4	146.8	232.4	230.4
5 Department Stores	173.7	135.2	169.1	173.7H
5 Drugs-Eth. ('53 Cl.—100)	474.7	360.4	438.1	430.3
5 Elect. Eqp. ('53 Cl.—100)	384.7	310.7	371.5	364.6
3 Finance Companies	947.2	648.8	923.1	923.1
5 Food Brands	663.5	419.3	646.8	663.5H
3 Food Stores	298.2	232.1	293.1	298.2H

(Nov. 14, 1936 Cl.—100)	High	Low	Mar. 17	Mar. 24
High Priced Stocks	320.2	262.7	320.2	318.1
Low Priced Stocks	667.4	527.6	662.0	667.4H
5 Gold Mining	1226.0	810.8	1007.0	985.1
4 Investment Trusts	170.6	136.5	160.9	160.9
3 Liquor ('27 Cl.—100)	1534.5	1098.2	1408.1	1361.1
7 Machinery	613.2	402.9	613.2	613.2
3 Mail Order	494.2	364.2	494.2	482.1
4 Meat Packing	298.3	223.9	293.1	293.1
4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	175.5	174.1
9 Metals, Miscellaneous	399.1	313.3	392.8	386.1
4 Paper	1237.1	867.3	1050.8	1041.0
16 Petroleum	792.7	609.0	792.7	792.7
16 Public Utilities	444.3	341.6	440.3	444.3H
6 Railroad Equipment	101.3	75.8	99.8	101.3H
17 Railroads	70.1	49.9	57.6	59.7
3 Soft Drinks	1040.4	690.3	984.2	1021.7
11 Steel & Iron	464.9	325.4	400.5	390.3
4 Sugar	100.9	63.0	74.0	74.0
2 Sulphur	818.3	563.1	790.0	818.3H
11 TV & Electron. ('27—100)	119.4	86.8	115.9	116.9
5 Textiles	244.8	183.3	242.9	244.8H
3 Tires & Rubber	255.9	176.6	200.9	199.1
5 Tobacco	266.2	182.5	266.2	266.2
3 Variety Stores	382.1	349.3	367.1	370.7
16 Unclassifd ('49 Cl. — 100)	295.5	224.0	290.8	295.5H

H—New High for 1960-1961

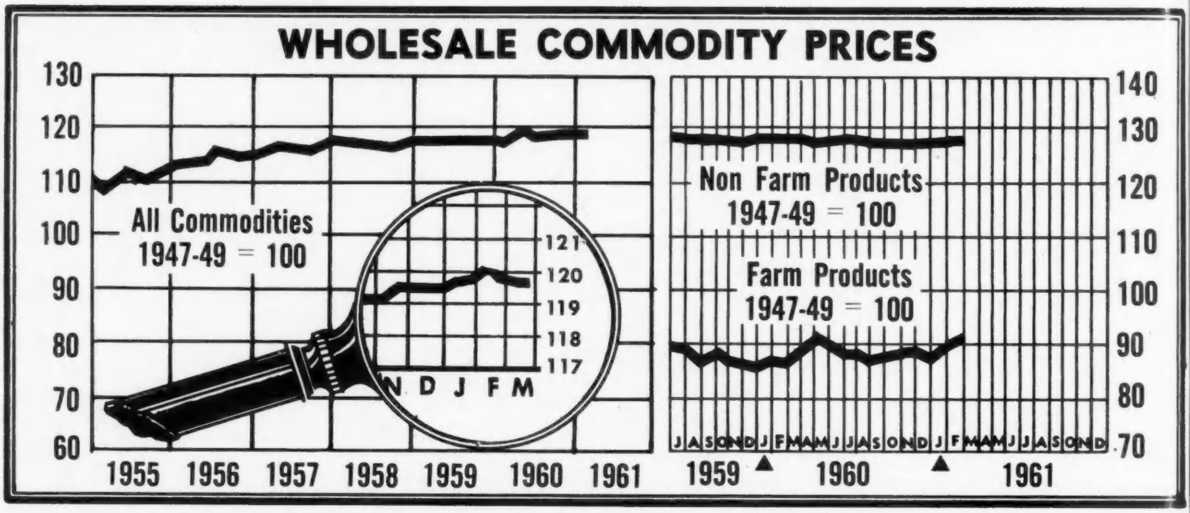
Trend of Commodities

SPOT MARKETS—Prices of a majority of the sensitive raw industrial materials were higher again in the two weeks ending March 24 although the pace of advance did not match that of earlier weeks. Although raw foods declined slightly, the gain for industrial materials accounted for a rise of 0.5% in the BLS daily index of 22 leading commodities. The raw industrial materials' component added 1.0%, with copper scrap, steel scrap, tin, cotton, wool tops, hides, rubber and tallow, all moving higher, while only burlap and rosin declined.

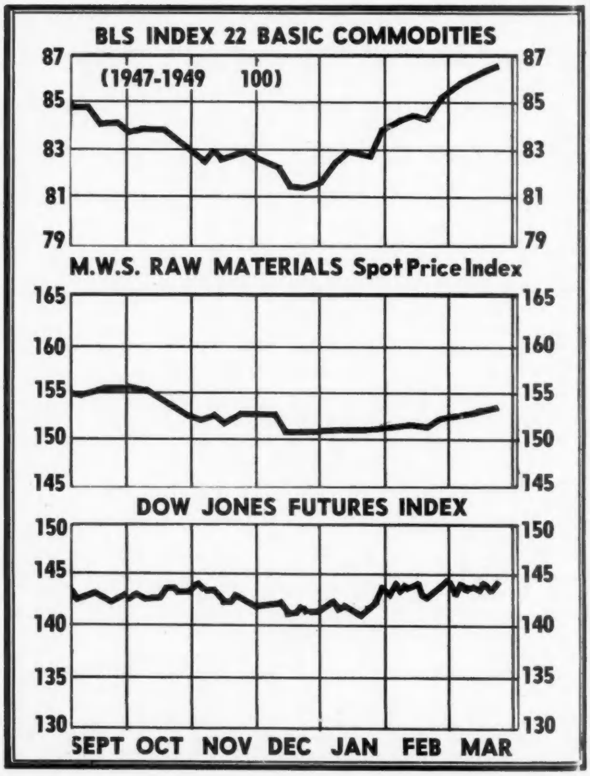
Among the broad range of commodities, farm and food prices moved higher, but the BLS index of all other commodities declined slightly. Inventories of some finished goods are still large, and this could restrain advances in the affected commodities.

FUTURES MARKETS—Futures markets were buoyant in spots during the fortnight ending March 24, although some areas of weakness were visible. Price advances were chalked up by soybeans, cotton, wool, world sugar, coffee, cocoa, rubber and copper, while wheat, corn, oats, rye, hides and lead sought lower levels.

Old crop wheat futures receded in the period under review but later options managed to hold their own. Based on current planting indications and average yield, the Spring wheat crop should be well under that of the previous year, accounting for the resiliency in the new crop options. Nearby futures were depressed by the fact that impoundings under the loan amount to only 321 million bushels, indicating that free supplies would be plentiful.



BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Mar. 21	119.8	119.7	120.0	60.2
Farm Products	Mar. 21	90.0	88.9	90.4	51.0
Non-Farm Products	Mar. 21	128.0	128.2	128.6	67.0
22 Sensitive Commodities	Mar. 24	86.7	86.3	84.4	53.0
9 Foods	Mar. 24	78.4	78.5	74.6	46.5
13 Raw Ind'l. Materials	Mar. 24	92.7	92.0	91.7	58.3
5 Metals	Mar. 24	92.6	91.0	93.9	54.6
4 Textiles	Mar. 24	83.6	83.7	79.1	56.3



MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1961	1960	1959	1953	1951	1941
High of Year	153.6	160.0	161.4	162.2	215.4	85.7
Low of Year	150.5	151.1	152.1	147.9	176.4	74.3
Close of Year		151.2	158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1961	1960	1959	1953	1951	1941
High of Year	144.7	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	141.2	144.2	153.8	174.8	55.5
Close of Year		141.2	147.8	166.5	189.4	84.1

Louise & Martha

For two coeds, our 70th report card

Louise and Martha Cummings are sisters, Californians and college students.

They are also two of the over 65,000 people who own shares in Union Oil. This is our report to them on our 70th year of business.

Our customers paid us the record amount of $535,631,000.

We spent 60% of our customers' dollars — or $318,498,000 — with some 18,000 other companies and individuals with whom we do business.

Taxes took 22% — or $117,232,000. Of this amount, $91,954,000 were the fuel taxes. The rest — $25,278,000 — was paid to over 1,000 local, State and Federal tax collectors.

Wages and other benefits for our employees and their families amounted to 12%, or $65,423,000 of our income.

This left us 6% — or $34,478,000 as net profit. Over 43% of these earnings — $14,942,000 — was payable in cash dividends* to these girls and our more than 65,000 other shareholders as a return on their investment.

The balance of our net earnings — 4% or $19,536,000 of our customers' dollars — we reinvested in the business to expand and modernize facilities.

Since the Cummings sisters were born some 20 years ago, Union Oil has gone from 91 million dollars in annual sales to over half a billion.

Today, behind each of the 8.7 million shares of Union Oil stock, there are more than 61 barrels of liquid petroleum reserves... more than 463,000 cubic feet of natural gas reserves... large investments in refinery, transportation and market facilities... large investments, too, in research laboratories.

**(In addition, a 4% share dividend was paid during 1960.)*

YOUR COMMENTS INVITED. *Write: Chairman of the Board, Union Oil Company, Union Oil Center, Los Angeles 17, California.*

Union Oil Company OF CALIFORNIA 76

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1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Burry Biscuit Corp.

"Recently, my broker has advised me to buy the common stock of Burry Biscuit Corp. for capital appreciation. I have been a subscriber to The Magazine of Wall Street for many years and I have always found your investment advice helpful. My income is ample for my needs, derived from operation of a business which I own entirely. My investments in stocks are made solely for the purpose of capital gain. Should I purchase Burry Biscuit as the broker suggests? I would indeed appreciate your valuable advice."

J. K. Buffalo, N.Y.

Burry Biscuit Corp. is the fifth largest unit in the biscuit industry, although the company is relatively small in size, compared with its leading competitors. The company's line consists of about 40 items of packaged biscuits, crackers and wafers, sold mostly under the Burry trade name. These products are distributed largely in the eastern states from Maine to Florida, and west to Pittsburgh, and represent about 68% of the total sales. Also, special label items represent approximately 19% of sales. The remaining 13% of sales consists of ice cream sandwich wafers, which are distributed through broker warehouses in St. Louis, Long Beach, California and Fort Worth, Texas. In the East, products are distributed through the company's own sales force, which numbers around 165 and covers about 7000 service sales points.

In 1953, the company revised its distribution policy of servicing chain store warehouse points to making direct shipments to individual food stores At present, direct sales and store-door delivery represent about 90% of the company's total grocery store volume.

The company's leased plant at Elizabeth, N.J. has 9 band ovens with an annual capacity of 65 million pounds. Two new ovens are now under construction and will be ready for production early this year, increasing capacity to 90 million pounds on a two-turn basis. The company has a long record of growth in sales. For the fiscal year ended October 31, 1960, sales amounted to $22,525,000 or over three times the volume of $6,490,000 for the 1950 fiscal year. Last year, sales were 17% higher than in 1959.

Until recent years, earnings showed relative stability rather than marked growth, reflecting competitive factors in the industry and rising costs. However, for the fiscal year ended October 31, 1960, earnings increased sharply to $1.10 per share from 66 cents for the year previous. The gain in earnings continued through both the first half and second half of the recent fiscal year. For the 28 weeks ended May 14, 1960, earnings increased to 64 cents per share from 44 cents a year previous and, for the 24 weeks ended October 31, 1960, earnings gained to 46 cents per share from 22 cents a year previous.

A number of factors have contributed to the recent sharp rise in earning power. Sales have benefited from the upgrading of the company's products, as well as from introduction of new products. Also, the company has restyled packaging of its older lines and increased the efficiency of its distribution. The enlaged plant capacity, mentioned above, will enable the company to meet the increased demand for its products. Last October, the company purchased all the capital stock of Blue Jay Food Products Co. of Brooklyn, a manufacturer of cookie and cracker products for the vending machine trade, with an annual sales volume of about $1 million.

With the December 15, 1960 payment, the semi-annual dividend was increased from 20 cents to 25 cents per share.

The common stock has advanced very substantially in price, from a 1960 low of 7¼ to a recent high of 29⅞. The stock is currently selling at about 26½ or the equivalent of approximately 24 times earnings. The yield is about 1.9%. The present price represents a high capitalization of earning power and therefore the stock appears to be discounting prospects for some time into the future. For this reason, we would not suggest purchase of this issue at this time.

What's Behind The Current Crop Of Mergers And The Companies Involved

(Continued from page 65)

hospital equipment. Fortunately, there is ample evidence of real competition in the field.

Other Companies Getting into Medical Equipment

Brunswick Corp., famous for its bowling equipment, is also a major factor in the hospital and medical equipment field. It took over **Aloe,** a major supplier, several years ago and within the last few months has reinforced its position in the industry by acquiring the **Massey Surgical Supply Co.**

Actually, Brunswick is demonstrating anew the kind of imaginative management that led to its enormous success in the bowling field. Management recognizes, even more than various skeptics, that the bowling boom cannot last forever. In not too many years all the industry will become largely dependent upon replacement demand for worn-out lanes. Hence, it is taking timely steps to assure itself a place in another major growth area of the future. Hospital supplies and equipment fit the bill admirably. For whether we have socialized medicine in the future or not, hospital construction and other medical facilities are scheduled to grow by leaps and bounds as more and more people enter the "aged" bracket.

Along the same lines, other companies are casting longing looks at various suppliers of medical equipment. The president of **Sanborn Instrument,** the principal producer of electrocardiagram machinery, recently admitted that talks have taken place between his well situated company and larger corporations.

Securing a Ready-Made Marketing Organization

The broadening of product lines in particular fields is an old tried-and-true reason for merging. There are still other objectives, however. As in most cases of the kind the reasons for **National Distillers & Chemical's** recent merger with **Bridgeport Brass** have not been disclosed, but they can be guessed at. Distillers, through its adventures in rare metals technology, has become one of the nation's leaders in this specialized field. As a marketing organization, however, its experience has been confined to liquors and chemicals, a far cry from the merchandising of metal products. Here is where Bridgeport Brass fits into the picture. The company has a long record as a top-flight marketer in an industry of generally poor profitability. The combination, therefore, of National Distillers' technical know-how and Bridgeport's intimate acquaintance with metals markets should make for a good team.

Marketing know-how, probably also lies behind the **Cluett-Peabody** acquisition of Boyd-Richardson Co., a successful retailing organization. Cluett is an established manufacturer of men's shirts, a field which has not been noted for its imaginative merchandising methods. The combination with an aggressive retailing organization may be just the tonic that Cluett's shirt business needs. If it can become dynamically profitable, Cluett could move ahead remarkably fast. For, in addition to shirts, the company controls the patents on the Sanforizing process as well as the relatively new Clupak process. This was worked out in cooperation with **West Virginia Pulp,** and provides a method for producing stretchable papers which can be used for anything from packaging to disposable clothing.

Acquisition of More Glamorous Sidelines

Perhaps the most vital reason for merger these days is the desire of companies to get into industries possessing more dynamic potential than their own—or to establish a position in an industry that will counter the normal cyclical trends that befall a company's sales and earnings picture.

Probably for such reasons **Dow Chemical,** having already achieved broad diversification in chemalurgy, is seeking new areas of growth by acquiring **Allied Laboratories.** The latter's pharmaceutical and biological lines should give Dow a wedge into the currently lucrative drug market, as well as the research and production facilities to participate in the future growth of medical needs. With its excellent management and industrial know-how, this latest merger could be the beginning of a significant change for Dow.

Dow can proceed at a leisurely pace. **Chance-Vought** however, must act in a hurry. Formerly a major aircraft supplier of Air Force and Navy planes, the company finds that in a few years its existing contracts will run out, and so will the military aircraft procurement program. It is necessary, therefore, to build a new business. **Martin Co.** spotted this trend several years ago and abruptly left the aircraft industry for electronics and missilry. Chance-Vought, however, is trying a different solution. Instead of the defense route it is establishing itself in a variety of durable goods industries tied closely to the population structure. The company is already the leading producer of mobile homes, and has now established itself in the boating field through the acquisi-

tion of Harbor Boat Building Co., and Harco Engineering.

More exciting fields are not being ignored, however. Chance-Vought also has a heavy investment interest in the data-processing and electronics field, but is attempting in the meanwhile to build up solid income in the more prosaic areas.

Borden's, too, is seeking to build up a business with more dynamic potential than food products. Several years ago it began the process of acquiring chemical and plastics companies. The merger recently with **Hawley-Monk Co.,** a producer of inks and other chemical products, is part of the same process. A check into Borden's history reveals several periods in the past when the company has expanded aggressively through acquisitions. In each instance the results were salutary, although it took several years to become apparent in higher and more stable earnings. A similar degree of success this time is a reasonable expectation, in view of the able management record of the company.

Other Mergers, Actual and Projected

Many of the current crop of mergers are easy to understand just from the names of the companies involved.

United Airlines' takeover of **Capital Airlines** is the result of the government's recognition that overlapping routes are uneconomic. Capital was on the verge of bankruptcy, and either merger or liquidation was inevitable. The combined operation should be far more efficient than that of the two separate companies.

General Instruments' merger with Pyramid Electric is just another step in General's attempt to climb into the major leagues as an electronics company. The takeover last year of General Transistor was a big step in that direction. Pyramid is a small, unprofitable electronics organization, but its research facilities and know-how should find good use within a larger organization.

American - Marietta, perhaps the champion in the merger field in terms of the number of companies it has taken over in recent years, is merely broadening its raw materials base by acquiring the Manley Sand Co. As a leader in cement products, Marietta has a vital need for sand. The further acquisition of Dura Fittings Co. broadens Marietta's finished product lines. Hardware and allied products are already part of the company's broad arsenal of products.

Marietta's status is in some jeopardy at the moment, however, because of a government anti-trust action. The case is too new for comment, but undoubtedly it is the sheer number of mergers in recent years that has attracted the trust-busters' attentions.

Understandably, electronics companies are in the forefront of the merger parade. The process is typical of new industries, in which market potential frequently outruns the financial ability of smaller companies to participate.

Litton Industries has been one of the most active merging companies in this new industry. Careful but aggressive acquisition has built a broad product line and provided excellent research and development facilities on a world-wide basis. Hence, the merger with Hopkins Engineering is just another step along the same path the company has already been following. Hopkins gives Litton further participation in the red hot microwave industry, as well as a good components operation in the rapidly growing capacitor field.

Other companies are still trying to get into electronics. **Hammond Organ** is endeavoring to get in tune with the times by taking over Gibbs Mfg. & Research, a small electronics firm.

Universal Match, a company specializing in a variety of newer products, is also seeking further electronics outlets by merging with **Universal Controls.** The merger has been on and off several times, and has still not been confirmed, but as of this writing it appears that final agreement may shortly be reached.

Some Divorces May Follow

Merger is one of the oldest forms of growth. Sometimes the reasons stem from the simple desire to obtain better management. Upon other occasions it is a quick way of getting into new industries. Many of the current crop fall within the usual channels. Others, however, will contribute to the mounting confusion in industry classification. Milk companies in the plastics industry, musical instrument companies in the electronics field, and so on, make the analyst's task even more difficult. But they also pose the question of whether this encroachment on other green fields is necessarily a good thing. Electronics may have fascinating potential, but it requires entirely different management abilities than running a retail store. Chemicals and plastics have exciting prospects, but makers of woman's dresses are not necessarily qualified to exploit them.

Each year many companies divest themselves of operating divisions. The sale is accompanied by none of the fanfare that greeted the acquisition a few years earlier. The same fate will probably befall several of the current marriages. If the past is any criterion, there will be a few highly successful combinations, several mediocre ones, and a substantial number of divorces. END

High-O-Silver!

(Continued from page 75)

accordingly depends on production of these metals from orebodies where it is only incidental to the principal mining interest. While silver is naturally helpful to all base metal mines when it occurs in their ores as a valued credit against unit cost of production of the principal metal mined, it is still usually of minor consideration in terms of total gross and costs. Even a substantial price rise for silver would not ordinarily bring out much more metal unless accompanied by simultaneous higher production of copper, lead, and zinc. Under present conditions, with production curtailment ordered in effect at many of these mines, the prospect of increased silver output from such properties is anything but promising.

No doubt a higher silver price might cause revived activity among a few of the hundreds of old silver mines in Nevada, but production from these was never large, and rehabilitation would be costly. Large orebodies, that can be mined cheaply are simply not

existent among silver mines. And the new big copper mines, such as Toquipala or San Manuel, do not have the silver content in their ores that characterized the producers of a few decades ago. In short, even the recovery of by-product silver from base metal mines, which now accounts for ¾ of the world's silver output, gives every indication of declining as the original silver-bearing copper ores become depleted.

Effect Upon Prices

With these facts so plainly evident, it is surprising that attempts are still being made in Washington to repeal the Silver Purchase Act, which established the government buying price of 90½¢ an ounce for domestic silver. Quite naturally the large silver consumers would like to see a lower price, such as prevailed in the early 1950's, but they do not seem to be correct in asserting that government purchases are now propping up the price artificially. This was undoubtedly true ten years ago, when the open market price in New York averaged 80¢ to 85¢ an ounce, but conditions have changed materially since that time.

Today, the New York open market price is a fraction of a cent higher than the Treasury's price, and the London price is still higher. Actually, then, it would appear that domestic silver consumers are benefiting as long as the present legislation remains unchanged. Instead of applying pressure for a lower price, consumers might even help themselves by lending their favor for a moderately higher price to bring out more supplies and thwart a runaway market when the bottom of the barrel is scraped.

Opportunities for Investors

Thus, economic factors do suggest an upward pressure upon silver prices. What can individual investors do about this?

In theory, silver futures could be purchased in London or Canada. A contract normally represents 10,000 ounces. But beyond the facts that this procedure is highly speculative and covers a fixed, short term only, it is effectively ruled out for American citizens by a 50% U. S. tax on profits derived from silver dealing, either within this country or abroad.

The more practical method of participation is by investment in companies whose silver production contributes an important part of their profits. The selection of companies that have large silver output in absolute terms would not be, in itself, a significant guide because, as stated previously this may still be no more than a sideshow in any particular company's overall operations. As an example, **American Smelting** has a silver production of about 14 million ounces a year, by far the largest in this country, valued at about $12.5 million, and yet this is still only 3 per cent of its $400 million sales.

Similarly, **Anaconda Company** produced 3.1 million ounces of silver in 1959 but its value of about $2.8 million was less than 1 per cent of the company's income.

Similar comments could be made as to **Kennecott's** output of 2.1 million ounces.

Or in respect to **Phelps Dodge**, with 1.3 million ounces. It is also significant that the silver output of these latter three companies, Anaconda, Kennecott, and Phelps Dodge, has declined nearly 50 per cent since 1951, confirming the statement that the silver content in the ores of many of the leading copper producers is falling.

The investor will also have to look at some of the smaller companies that have a substantial silver production counting heavily in their overall income. The list is limited, both in this country and abroad. The accompanying compilation presents the leading publicly owned companies in the order of their silver output.

► If the price of silver were to be raised, pretax earnings per share would be affected directly to the extent of the number of ounces of silver represented by each share of stock. Thus, for **New York & Honduras Rosario**, to use a somewhat extreme example, a modest increase of 5¢ an ounce could mean an increase in per share earnings (before tax) of 45¢, or almost 10%. This assumes a constant rate of production. In many cases production could be stepped up, and it would become economical to process lower grade ores, although the increase in profits might not be fully proportionate. Consideration must also be given to the

indicated life of various mines before projecting increased earnings rates indefinitely, because new discoveries to replace depleted ore reserves can not be counted upon.

A Word of Caution

Current conditions do strongly indicate an increase in silver prices, and this could mean substantially increased earnings for companies largely dependent upon silver output. The investor must, however, bear several important reservations in mind. **First of all, the domestic price of silver is closely tied up in politics, and it is difficult to predict what legislative changes might be made. Nothing suggests that the government is about to lift the price of silver in the near future, despite the drain on the free silver stock that has been described.**

► **Further, a balance between production and consumption could be restored by a relatively minor increase in price. Although, as stated, such an increase could not do much to stimulate silver production in this country, it might**

do so in Mexico. Up to last year most domestic silver output continued to be sold to the government, rather than upon the open market, suggesting that materially higher prices are not yet being anticipated within the trade.

► **Finally, most of the true silver companies are relatively small, dependent upon one or only a few mines, and therefore are fairly speculative in character. These may be satisfactory commitments for investors who have studied the picture closely and buy them with their eyes open. For most investors, however, it would seem preferable to evaluate larger and more broadly based non-ferrous metal companies on their merits, exclusive of silver. If the price of silver should advance sharply, profits in the diversified non-ferrous metal companies might be less impressive than in silver stocks, but excessive risks will also be avoided.** END

Investment Appraisal Of The Oils

(Continued from page 79)

part of oil exporting countries with regard to terms for the granting of new concessions, and for a higher share of earnings reverting to the producing country.

● **At best, these meetings could serve to make producing countries price-conscious and to better enable them to understand the complexities of international oil marketing. Many international oil company executives tend to take this latter, more optimistic view.**

With world-wide demand for petroleum increasing at about a 6% annual rate, it is reasonable to expect a better balance between supply and demand in from three to five years. It is unlikely that new discoveries can be made at the rate maintained during the 1950's, and the improving technology of exploration and development will barely be able to keep pace with ever-increasing demand.

Of the *major international companies*, Gulf derives the relatively greatest share of its earnings from the United States. It is estimated that **Texaco** and **Standard Oil (California)** derive somewhat more than half their net income from domestic operations. **Socony, Getty, Standard Oil (New Jersey)** and **Royal Dutch** derive most of their income from overseas sources, with the latter two having especially large commitments in Venezuela.

● The short term outlook is best for those internationals having their largest commitments in domestic operations, while longer term factors may favor companies having a relatively greater participation in fast-growing foreign areas.

Caution Warranted on Domestics

The favorable price situation which enabled domestic refiners to chalk up such enviable records in the fourth quarter of 1960 will lead to further advances in the initial 1961 period. An exceptionally cold January, with temperatures averaging 14% below normal triggered sharp increases in demand for distillate fuel oil and kerosene. Although February was slightly warmer than usual, demand for heating oils still exceeded the year-earlier pace, as consumers refilled storage facilities emptied during the severe January cold spell. March temperatures are about normal, so the heavy inventory position of consumers will mean reduced demand for the month as the industry prepares for the critical Spring season.

It is at this time that the price of gasoline is extremely sensitive and will set the trend that usually carries throughout the Summer. Allowable producing days, as set by the Texas Railroad Commission, have been raised to ten days for March and nine for April. These are the same as for the comparable months of 1960, whereas January allowables were one day lower and February allowables two days lower than the year-earlier months. Crude supplies, therefore, are becoming more readily available to companies hungry to step up throughput at the refinery. With inventories growing above desired levels and with gasoline spot prices showing some signs of weakness the industry once again finds itself at a critical turning point. Although it is doubtful that the industry can maintain the February refiners' spread of $1.01 per barrel, the degree of restraint demonstrated by refiners in the coming weeks will determine whether products prices level off or show a precipitous drop. Investors, therefore, should be cautioned that the industry's recent recovery may prove to be of short duration.

Year-to-year earnings comparisons will also be affected by the recently granted 5% wage increase to petroleum wage earners. In some instances this has wiped out savings from recently instituted staff reduction programs. Further uncertainties center around legislation pending on Capitol Hill which may result in modification of the present depletion law. Furthermore, gasoline tax rates are up for review both in Congress and in several state legislatures. The effect of this and other pending legislation is uncertain, but the net result will most likely be to the industry's disadvantage.

Consolidation and Integration

Positive steps are being taken to meet the challenges that the industry faces. The trend toward consolidation, both internal and via the acquisition route, has become increasingly evident. Internal realignments have taken place within **Pure Oil's** exploration division, **Socony Mobil's** domestic and foreign operating divisions, and the marketing organizations of **Standard Oil (New Jersey)**, **Standard Oil (Indiana)** and **Ohio Oil.**

This movement is not only resulting in numerous internal readjustments, but a multitude of mergers and acquisitions are changing the face of the industry. Thus, within the past eighteen months, **Woodley Petroleum** has been acquired by **Pure Oil; Anderson-Prichard** has sold its producing properties to **Union Texas Natural Gas; Honolulu Oil** is about to sell its assets to **Tidewater** and **Pan American; Pacific Petroleum** has exchanged stock for the Canadian acreage of **Phillips Petroleum** and **Sunray Mid-Continent; Aurora Gasoline** has been absorbed by **Ohio Oil;** and **Murphy Corporation** has purchased **Spur Oil, National Petroleum** and **Vigor Oil,** three small retailers. Perhaps the most aggressive concern has been **Continental Oil** whose most recent

acquisitions have been **Douglas Oil** (pending shareholder approval) and substantial producing properties of **Felmont Petroleum. Standard Oil (New Jersey)** has enhanced its West Coast position through the purchase of **Monterey Oil,** while **W. R. Grace** has recently increased its interest in **Cosden Petroleum** to 53%.

Had it not been for adverse rulings on the part of the Justice Department and other regulatory authorities the trend toward consolidation would have been even more pronounced.

Among the combinations which failed to materialize were: **Sinclair's** proposed takeover of **Texas Pacific Coal & Oil;** the purchase of **Leonard Refining by SOHIO;** and **Texaco's** abortive marriage to **Superior Oil.** Another proposed combination which to date has failed to materialize is the long awaited merger of **Skelly Oil** with **Tidewater Oil,** both controlled by the Getty interests. The principal obstruction here, however, came from minority institutional Skelly shareholders. An interesting situation is developing on the West Coast where both **Phillips Petroleum** and **Gulf Oil** have acquired substantial equity interest in **Union Oil.** The matter is now awaiting interpretation both by the Justice Department and by the courts.

There is even reason to believe that **Amerada,** largest of the independent crude producers, is seeking to acquire a refiner-marketer, thus changing a time-honored company policy.

Diversification

Aside from the further integration and realignment of petroleum activities, many managements have taken steps to strengthen their positions through diversification. Most often this has entailed movement into related activities, such as petrochemicals, natural gas, and natural gas liquids. Particularly strong positions in petrochemicals are enjoyed by **Cosden Petroleum, Phillips Petroleum, Shell Oil, Standard Oil of California** and **Standard Oil (New Jersey).**

Among the more aggressive newer entrants into the petrochemical field are **Atlantic Refining, Ashland Oil,** and **Cities Service.**

● Other companies have branched out into activities ranging in extremes from auto parts **(Kern County)** to potato chips **(Signal Oil & Gas).** One company, Crescent Petroleum, has all but diversified itself out of the oil industry and is now primarily a manufacturer of electronic devices and laboratory furniture.

Looking Ahead

The petroleum industry has once again reached a position that justifies careful scrutiny by the investor. ● The outlook for the international companies remains mixed. ● For the short term, world oil markets are faced with the likelihood of continued price erosion and more intensive competition. ● Over the longer term, however, the position of international companies will be strengthened as the gap between demand and supply is overcome by rapidly expanding oil consumption. ● The relatively better prospects for finding oil abroad and the lower expenditures required to find and develop reserves provide a bright future for the international concerns. ● Foreign demand for oil, moreover, is increasing at a rate double that of domestic consumption. ● The geographical diversification and flexibility of the internationals, coupled with dynamic managements, well entrenched domestic activities, strong technological skills and aggressive exploration programs, further enhance their longer term appeal.

► The domestic companies will report excellent first quarter earnings for 1961, but are moving into a critical period. The domestics, as has been pointed out, have benefited recently from unusually high refiners' margins. The Spring build-up in inventories, however, and the current softening in gasoline prices should cause the investor to take caution. The trend in earnings for the domestic refiners will depend on whether the managements concerned show the proper statesmanship and keep selling prices from being deluged in a flood of refined products. The oil companies have failed this test at similar times in the past. Whether they will be able to succeed in 1961 will be determined in the weeks ahead. END

Paper Industry

(Continued from page 91)

past has been somewhat slower than for the general economy. Last year's output of coarse paper appears to have fallen off slightly from 1959 and a further decline in output is possible during 1961. Capacity is expected to rise by about 3%.

The longer term outlook for kraft papers is mixed. Since the war, multiwall bags have replaced cotton bags in a number of applications and their use is continuing to grow. Further growth, however, could be retarded by a trend toward bulk shipment of such items as cement, fertilizer and other products now largely sold in packaged form. The multiwall bag is also vulnerable to inroads by heavy duty polyethylene. Wrapping paper grades have already felt the competition of lighter gauge plastic films. On the other hand, the development of the Clupak process, which will be treated more fully below, could be a powerful stimulant to new and increased uses for kraft and other types of paper.

Among the companies with a large stake in kraft paper production are **Union Bag-Camp Paper, International, Crown - Zellerbach, West Virginia Pulp & Paper,** and **St. Regis Paper.** Most kraft is manufactured by integrated companies that convert the majority of their output.

Some Interesting New Developments

All in all the outlook for this year is not very bright for most of the paper industry. Nevertheless, there are several new developments, either actual or potential, that could in time work to the industry's advantage.

One of the most interesting, allthough probably some time off, is the possibility of recovering valuable chemicals during the papermaking process. Currently, only about half of the wood that enters the paper machine is used in the finished product. Several potentialy valuable by - products are frequently discarded for lack of an economical method of recovery. A number of companies are conducting intensive research aimed toward solution of this problem. Success in these endea-

vors will make an important contribution to earnings.

Paper company officials are frequently asked how they view the prospect of competition from plastics and films. The usual answer is that while the new materials will undoubtedly displace paper in some applications, the combination of plastics and films with paper is opening new markets. Examples include various plastic coated papers and laminations of paper with film for uses where greater strength or moisture r e s i s t a n c e is necessary. **Lily-Tulip's** line of plastic lids for paper containers is another example of the combination of the newer and older materials. There are many others.

The Clupak process of imparting stretch to paper has made substantial progress since first introduced less than two years ago. Currently, 17% of all domestically manufactured multiwall bags are made of extensible kraft. The process adds approximately 1% additional stretch to paper across the machine and up to 15% more in the direction of the machine run. The result is a stronger, more resilient paper. A three-ply multiwall bag made of Clupak kraft has the strength of a four-ply bag made of conventional kraft. More efficient use of timber resources are now possible as a greater quantity of packaging may be obtained from a given quantity of fibre, and more extensive use can be made of short fibre hardwoods which ordinarily yield a weaker grade of paper other than kraft. Still in the development stage is a process which will, when perfected, produce paper that stretches in all directions.

Clupak, Inc., which licenses the process, now has twenty-three licensees and expects to obtain more by the end of this year. Clupak is a jointly-owned venture of **West Virginia Pulp & Paper** and **Cluett, Peabody.** Thus far, heavy research and development expenditures have prevented the affiliate from contributing to its parent companies' earnings, but in time it could become an important source of revenue.

Still another new group of products which have recently come into use are the paper substitutes for textiles. These find use in garment linings, in surgical dressings and in disposable clothing and hospital supplies. Prospects are excellent that many additional uses will be found, particularly in applications where there is need for a low-cost product that can be discarded after limited use. **Kendall Company, Johnson & Johnson** and **Kimberly-Stevens,** a jointly owned affiliate of **Kimberly-Clark,** and **J.P. Stevens,** manufacture products that fall within this area. END

The Drug Industry

(Continued from Page 87)

the profits of the large drug companies adversely is the proposal to tax unremitted foreign earnings at the normal domestic tax rate of 52%. It should be emphasized, however, that this proposal is still merely in the talking stage, and may not be enacted. If it is adopted it would have its greatest impact upon companies with the lowest apparent tax rates, such as **Pfizer** and **Schering.** But it is also possible that these companies, by various organizational changes, would find means of minimizing the impact of such a tax change.

Earnings Picture

While most ethical drug companies were able to increase sales in 1960, earnings were generally disappointing. Readjustments of dealers' inventories and price competition, particularly in antibiotics, steroids, hormones and nutritional products were important factors in the profit margin squeeze. Indication of further price pressure in 1961 comes from several manufacturers' offers of a 10% rebate on retail welfare prescriptions. Also important in 1960 was the sharp rise in spending on research and sales promotion. In the case of a number of major companies if these two items had not increased as a percentage of sales then earnings gains would have been registered in 1960. The lack of a major new product development and the somewhat slower release of new products by the Food and Drug Administration also contributed to the disappointing pattern of earnings. Without information to the contrary, 1961 looks like more of the same, with few significant earnings gains anticipated among the major ethical drug producers.

Individual Companies

Since individual members of the drug industry have considerably different characteristics, the remaining space will be used for a specific discussion of some of the principal companies.

American Home Products is believed to be the largest manufacturer of ethical and proprietary drugs in the world. Although primarily a drug company, its business is broadly diversified and involves a number of important food, consumer and household products. Sales in 1960 increased more than 6%, but earnings gained only about 3% due largely to increased research and promotion expenses. The company has an excellent record of sales and earnings growth and has maintained a constructive dividend policy whereby the stockholder has shared through dividend increases in this growth. Because of the broad participation in the drug industry, the stock offers greater stability than most of the primarily ethical drug companies.

One of the largest manufacturers of prescription drugs, **Upjohn,** possesses very strong research and marketing organizations. The company has participated in many of the major new products of the industry, and its above-average research productivity seems likely to continue in the future. Both sales and earnings in 1960 were adversely affected by price reductions in certain vitamin products, broad-spectrum antibiotics and certain specialty products. Second and third quarter earnings were below those in the previous years, but fourth quarter earnings were 11% ahead of the fourth quarter of 1959. New products and further earnings gains in 1961 are in prospect.

Charles Pfizer & Company, a leading manufacturer of antibiotics, also possesses one of the strongest foreign marketing and producing drug organizations in the industry. Much of the company's recent growth has come from this expanding foreign activity, and its financial results have become less dependent on the competitive aspects of the U.S. market. Foreign business now contributes approximately

50% of the company's earnings; as this proportion increases the company's apparent income tax rate will increase as more dividends are remitted from foreign affiliates. For this reason, earnings growth in the future could be at a more gradual rate than during the last ten years.

Johnson & Johnson offers the opportunity for a broad participation in the medical and health products' industries. With rising expenditures for medical care and an increased standard of living throughout the world, continued growth is anticipated for the company's products. Recent market strength reflects this anticipated growth and the thin floating supply of stock. In the past the company's earnings have been somewhat cyclical, and poor general business conditions together with heavy promotion expenses relative to the company's new oral antiseptic *Micrin* are expected to adversely affect first half earnings.

Schering—An excellent example of how changing fortunes in new product development affect the earnings of a specialty drug company is provided by Schering. The development of the *Meti* drugs caused earnings to rise sharply in 1955 and 1956, reaching a peak in 1957. Since then largely because of the introduction of a number of competitive steroid hormone products, earnings have declined each year through 1960. Beyond competitive factors, a substantial part of the earnings decline can be ascribed to increased expenditures for promotion, research and development. With the construction of new manufacturing and process control facilities and the strengthening of various product lines with new products, there are signs that earnings may stabilize around the 1960 level. Significant growth from this level, however, seems dependent on a spectacular new product.

Sterling Drug is broadly diversified in proprietary and ethical drugs, and also has a major participation in foreign markets. Above-average growth has been achieved without spectacular new products but rather through numerous new products across a broad front. Figures released in 1959 indicated that sales of ethical drugs were close to $80 million, a figure much higher than many had previously estimated. The continued growth in earnings and dividends has contributed importantly to the recent strength in the stock.

Bristol Myers is another company which combines proprietary and ethical drug activities. The new so-called synthetic penicillins, *Syncillin* and *Staphcillin* have enabled the company to enlarge its position in the antibiotic market. Growing sales of Clarol hair coloring products also contributed importantly to the favorable results in 1960. Further gains of between 10 and 15% for 1961 have been estimated by the company. By historical standards the stock is selling high in relation to current earnings and thus reflects this improved growth prospect.

Richardson Merrell (formerly Vick chemical) combines the fields of proprietary products, ethical drugs and specialty chemicals. Dramatic growth in the last few years has reflected the wisdom of the company's acquisition program and important successes in the development of new special drugs. This stock also liberally capitalizes earnings by historic standards. However, the outlook for the fiscal year ending June 30, 1961, is for close to a 20% gain in earnings, with this trend likely to continue into fiscal 1962.

Merck & Co.—One of the largest producers of medicinal chemicals and related products, this company has been extremely successful in the development of new drug specialties and maintains the largest research organization in the industry. Sales and earnings in 1960 were adversely affected by sharply declining prices for bulk vitamins and pharmaceutical chemicals as well as by rising research and promotional expenses. A number of new products have been introduced recently including an important antidote to poultry disease. Dramatic earnings improvements, however, would seem to be still dependent upon major drug specialties and the pattern of prices for bulk pharmaceuticals. Using its knowledge of high purity chemicals, the company began production of silicon and other fine chemicals for the electronics industry. Continued growth is anticipated in these areas. END

What's Ahead For The Chemicals In 1961?

(Continued from page 83)

being tailored to fit in with their research goals. These goals aim at shortening product development time from the test-tube to commercial realization, from the current four-to-seven year period to, perhaps, a two-to-four year period.

Outlook For 1961 Sales

Most chemical executives, as indicated earlier, are basing their views for 1961 on a turn-around in general economic activity. On this basis, they foresee a gain in over-all sales of about 5 per cent, which would boost total industry sales to a new record of more than $29 billion.

This would be more than sufficient to enable the industry to retain its billing as the fourth largest in the United States. This outlook is shared by government forecasters, too.

Wesley R. Koster, the Director of the Chemical Division of the Business and Defense Services Administration, told the annual meeting of the Commercial Chemical Development Association early in March that a 5 per cent rise in chemical sales was a reasonable projection for this year. He added that an annual gain on this order could be expected to be sustained throughout the Sixties.

With sales advancing by about 5 per cent this year, a pick-up in the rate at which chemical firms utilize their capacity would also be a reasonable projection. Many firms have been operating at less than 80 per cent of capacity and unit costs have been penalizing profit margins. If operating rates can be increased, then unit costs would decline, benefiting net profits substantially.

Favorable Outlook For Two Interesting Plastics

Whether the promising outlook for the industry in general materializes or not, there seems little doubt that two of the newer plastics products will register striking gains from 1960. The first of these is High Density or Linear Polyethylene. This product has different properties than conventional polyethylene, discussed ear-

lier, which make it an excellent source for packaging, particularly blow-molded bottles. Because of technological difficulties, Linear Polyethylene has been slower in developing but now these problems are licked and it is growing at a spectacular rate. Sales in 1960 were up sharply to 180 million pounds from 102 million in 1959. This year sales are expected to leap forward by a whopping 60 percent to 285 million pounds. Within another four years, sales could be up to as high as 600 million pounds.

Growth like this spells rapid expansion and zooming profits for those chemical companies which manufacture linear polyethylene. **W. R. Grace** is one of the leaders in this field, and so is **Hercules Powder.** A number of other firms are beginning to make the same product or at least have announced their intention to enter the business. Thus, there is some concern in the industry that, when these newcomers are in full operation, an over-supply of linear polyethylene may result. However, W. R. Grace does not subscribe to this reasoning. Says Ted Miller, President of Grace Polymer Chemicals Division, "Published capacity figures are overstated; they're all talking about making the simplest types. When you try to make different melt-index materials, and other different grades, capacity goes way down. I believe the markets will exceed the industry capacity in another couple of years."

Polypropylene is in an even earlier phase of development but its future is perhaps still brighter. Consumption last year was no more than 35-40 million pounds, but industry forecasters expect sales to at least double in 1961 and rise further to 180 million pounds in 1962. This newest of a long line of plastic products is used as a filament for seat covers and rope, as an unique molded product for luggage and traveling cases, and as a replacement for die-cast metal.

The auto industry used an average of 12 ounces of polypropylene per car in 1960. It scheduled retooling that would have called for as much as 2.5 pounds per auto in 1961. But because Hercules Powder was the only producer, Detroit feared a possible shortage and cut back to 1.5 pounds per automobile. However, both Ford and Chevrolet have been making in-model changes to put in polypropylene accelerator foot pads.

There are other mass markets looming ahead for polypropylene. These include backs of television sets, for every TV manufacturer is believed to have one either in production or on the drawing board. Also, telephone handsets could open up to polypropylene. And many in the industry are convinced that the product's biggest use will eventually be in the field of textiles. A fabric made of polypropylene filament barely supports combustion; fabrics woven 100 per cent of the product can be made to appear like wool; and fiber blends of cotton with up to 65 per cent of polypropylene filaments are said to show much promise.

Hercules Powder has been the pioneer in this interesting new plastic. Now, however, it is being joined by other chemicals, as well as oil companies, as table III shows.

TABLE II

Capital Expenditures of the Chemical Industry

(Millions of Dollars)

	1957	1958	1959	1960	1961
PLANTS:					
New Projects	702	700	437	453	733
Projects Under Construction	1,745	1,767	995	1,045	1,641
Projects Completed in Previous Year	1,119	1,271	1,705	1,283	940
LABORATORIES:					
New Projects	16	8	27	37	39
Projects Under Construction	37	68	60	126	97
Projects Completed in Previous Year	42	31	70	62	101

Source: Manufacturing Chemists Association Annual Survey of Construction.

Growth Of Industrial Gases

Another segment of the chemical industry which is expecting a good year is the industrial gas sector. This stems basically from the sharp increase in the use of oxygen by the steel industry and the rapid pace at which chemical companies are constructing on-site oxygen plants adjacent to the steel industry's open-hearth furnaces.

In 1956, for example, 190 cubic feet of oxygen were used in the production of one ton of steel, whereas today the figure exceeds 420 cubic feet. And the growth is just getting started, for only about 100 of the 900 open-hearth furnaces in the United States, use oxygen converters as yet. Just in the next five years, the steel industry's annual consumption of oxygen is expected to jump by more than twice the current level to 40 billion cubic feet. The business of constructing on-site facilities for the steel companies is in the hands of three companies—Linde division of **Union Carbide, Air Reduction** and **Air Products.** The oxygen is sold under long-term contracts, which facilitate the financing of the plants.

Oxygen as well as other industrial gases are finding new uses in rockets and missiles. Oxygen plays a key role as a fuel oxidizer in rockets. Liquid hydrogen is used as a rocket propellant and some believe it will become the ultimate fuel for all rockets.

Other Fast-Growing Products

All forecasts indicate that chemical fertilizers are going to experience a boom year in 1961. Emanuel Heinberg of **International Minerals and Chemicals Co.,** in a presentation before the Commercial Chemical Development Association early in March, spoke of an increase in fertilizer sales of as much as 12 per cent. Farmers harvested good yields last year and that helped boost their earnings. As a result, they now have more money to spend on fertilizers. Another important factor is that weather conditions in most of the nation's major crop areas are more favorable this spring than last.

In other fields, sales of heavy liquid detergents are reported to be trending upward at a rapid pace. This reflects growing industrial use as well as the beginning of sales for home laundry

TABLE III
Production Capacity for Polypropylene
(Million Lbs. Per Year)

	End 1958	End 1960	End 1962
Hercules	20	30-50	130-150
AviSun	—	25	100-125
Dow Chemical	—	10	40
Humble Oil	—	40	100
Shell Oil	—	—	80
Movamont	—	20	25
Eastman Kodak	—	—	20
Firestone	—	—	5
TOTAL	20	135	545

use. Potash, a leading ingredient for fertilizer, is expected to increase by 6 to 8 per cent this year. Borax sales, a primary ingredient in glass and ceramics, are expected to advance by 8 per cent.

Outlook For Companies

General industry trends only provide the environment within which companies must work. Individual performance of the various companies depends mainly on the alertness and imagination which characterizes the management team. Only a handful of companies have been able to buck the pinch in profit margins and the over-all sluggish trend that has characterized the chemical industry in recent years.

Among the giants of the industry — **DuPont, Union Carbide, Dow and Allied** — only **Allied** was able to show an advance in earnings during 1960. This may appear all the more surprising on its face because Allied, more than any of the others has a reputation for being concentrated in such slow-growing, low-profit items as chlorine, sulphuric acid, ammonia, and caustic soda. But in recent years top management at Allied has up-graded the company's product mix by diversifying into heavy-duty nylon, polyurethane foams, and refrigerants and aerosol propellants. These new lines, as well as a price increase on nitrogen products, one of the company's main lines, enabled Allied to boost earnings by 2.5 per cent to $2.57 per share. This, to be sure, is a small gain, but it augurs well for the future of the company. It would seem to indicate that, after a long period of time, Allied has solved its basic problems.

DuPont, the industry leader, was unable to withstand the increasing pressure on profit margins last year and a key question exists as to whether it will be able to turn in a lusty performance this year. The company noted in its annual report, "Du Pont's sales price index has declined in every year (since 1953) but one for a net decrease of about 10 per cent. Over this period wage and salary rates have advanced in every year without exception for an aggregate increase of about 43 per cent. At the same time a net decline of 3 per cent in raw materials prices has obviously provided only minimal offsetting effect".

A New Market For Nylon?

One of the serious problems that DuPont has not been able to overcome is the heavy stake which it has in nylon and other synthetic fibers. In recent years competition has forced a pronounced reduction in profits in these fibers and apparently the year 1960 was no exception, for DuPont said, "Increasing competition from established fiber producers and from new entrants to the field was encountered by nylon, orlon acrylic fiber, and dacron polyester fiber."

A possible solution to DuPont's problems in nylon, which accounts for an estimated 30 per cent of company sales, lies in the automobile tire yarn busines. Nylon tire yarn is used for replacement tires but no auto manufacturer has yet elected to use nylon on original equipment. Each year DuPont and other nylon manufacturers (Chemstrand, now wholly owned by Monsanto, is the other major producer) hope to break into the original equipment market. **The price differential with rayon yarn has narrowed to the point where rayon cannot stand another price cut, so it is likely to be only a matter of time before nylon wins a good share of Detroit's business. When that happens, DuPont's earnings should be in for a substantial rise.**

A medium-sized chemical company which has been doing well and which continues to have a good outlook is **Pennsalt.** In 1960 earnings at Pennsalt increased by about 6 per cent to $1.26 per share. It was the third year in a row that the company had shown an increase in earnings, reflecting mainly improvements instituted by management under its "Program for Growth". As President William Drake told the stockholders in the annual report for 1960, "during the past three years a total sales increase of 14 per cent has yielded a 58 per cent increase in earnings per share." And he added, "there are valid reasons to expect the favorable earnings trend to continue in 1961 and in future years". One reason for this optimism is the company's line of Isotron aerosol propellants and refrigerants, two of the fastest growing industries supplied by chemical companies. Another bright spot in Pennsalt's horizon is Kynar, vinyldene fluoride resin for plastics manufacture. Developed by the company's own research, the product is expected to find many uses in the plastics industry.

Olin's Aluminum Division Now In The Black

A company with a promising outlook for future growth in earning power is **Olin Mathieson.** This firm is a leading chemical manufacturer and is diversified into many other areas including drugs, packaging and aluminum. The aluminum venture is a new one, having just gotten started in the middle of 1959. As with most major new ventures, starting-up costs were heavy. But virtually every month since the initiation of operations, improvements in operations and in the profit and loss statement have been made. In the fourth quarter of last year, aluminum at Olin moved into the black, marking sharp improvement from 1959. This progress was all the more striking in the face of big de-

clines in profits of as much as 40 per cent at the major aluminum companies like Alcoa. Aluminum is expected to make a good contribution to profits in 1961 for Olin and the company's chemical operations are scheduled to benefit from new and modernized facilities for the manufacture of petrochemicals. Earnings in 1961 could, in a favorable economy, rise to more than $3.00 against the $2.59 reported in 1960.

Other Companies

Among the other companies in the chemical industry, **Hercules Powder, W. R. Grace, Tennessee Corp.,** and **American Potash** all have promising years ahead of them. Hercules is a leader in fast-growing polypropylene and is also a rocket engine maker. **Grace** with a strong position in linear polyethylene is also expected to benefit from an improvement in its ocean shipping business. **Tennessee Corp.** is a well-run fertilizer company. **American Potash** stands to benefit from the long-term growth for potash and from a heavy capital expenditure program started in 1960. .END

Sophisticated Study of Kennedy's Budget

(Continued from page 62)

GNP, Personal Income and Corporate Profits All to Drop

The new revenue estimates assume that the gross national product will be slightly below $510 billion this year, $4 billion less than Eisenhower anticipated. Personal income is also expected to fall below the $445 billion predicted in Eisenhower's January Budget. Corporate profits, estimated at $46 billion for 1961 in the Eisenhower Budget, are now expected to be somewhere between $43 and $44 billion.

Defense Spending Boosted By Close to a Billion

Four days after submitting his revised non-defense Budget, Kennedy submitted new defense proposals calling for an increase of $650 million in Eisenhower's proposed outlay for fiscal 1962. Coupled with revisions in Eisenhower's figures, this boosted defense spending estimates for the next fiscal year by $890 million. This would bring the total Defense Budget for Fiscal 1962 to $43.8 billion, a record peacetime high. In conjunction with the civilian increases it kicked the anticipated deficit up from $2.0 billion to $2.9 billion.

The $650 million in increased defense spending for fiscal 1962 was part of a total of a $1.9 billion program Congress is being asked to authorize over a period of several years to beef up the military establishment, although only the $650 million figures immediately in the fiscal 1962 Budget.

The overall increased defense plans calling for almost $2 billion more in the next few years consisted principally of an item of $1.34 billion to be spent over a four-year period in greatly expanding the fleet of Polaris-carrying submarines. Kennedy set a production target of one of these submarines per month to be reached by June, 1963.

He also urged increases in spending on new missiles—Polaris, Minuteman and the new Skybolt—**but surprised Congress by asking that development of the B-70 bomber as a major weapons system be halted.**

Altogether Kennedy proposed about $2.7 billion in new long-term defense spending. But at the same time he requested cancellation of projects earmarked for a total of $430 million. He proposed an additional saving of $320 million through transfer of capital funds already available to the Pentagon.

Break-down on Defense Budget

Recapitulating the highlights of the Defense Message, we find that the President wants:

► **Actual spending**—an additional $650 million for fiscal 1962, which combined with "revisions" in Eisenhower's estimates would boost the total to $43.8 billion.

► **Long-range appropriations**—$1.9 billion more than the previous Administration asked.

► **Missiles**—Authority to go ahead with a program that would give the nation more than 1,300 combat-ready missiles by 1965.

► **Polaris**—10 more Polaris submarines in fiscal 1962; by 1963 a production rate of one submarine per month, compared to the present rate of five per year.

► **Minuteman missiles** — Double present production rate and divert three squadrons to protected underground sites.

► **Skybolt airborne missiles**—Authority to spend $40 million more on development.

► **Limited war capacity**—more personnel, more flexible conventional forces, stepped-up non-nuclear fighter plane capacity.

► **Bases**—73 to be closed in this country and abroad.

► **Nuclear-powered airplane—to be abandoned as a military project.**

► **Titan**—elimination of two squadrons.

Contrasting Political Reactions

Democrats and Republicans clashed along predictable party lines in their evaluation of the new Budget. One Republican spokesman claimed it was "dishonest and must have been designed by a man who used to operate the old shell game at the county fair". The Republican Nation Committee, stung by Democratic charges that Eisenhower had submitted a "phoney" Budget, also asserted that Kennedy's had been rigged to obscure the fact that it contemplated deficits "as far into the future as forecasts can be made".

The Democrats, for their part, thought it a "realistic" and sound document.

Budget Consists Largely of Informed Guesses

Any Budget is at best a compilation of educated guesses put together under circumstances reflecting a variety of political and economic pressures. Thus, Kennedy's estimates, no less than Eisenhower's, necessarily include a number of questionable assumptions.

Kennedy is counting on increased revenues from postal rate boosts, although Eisenhower found it impossible to get Congress to agree to these. Kennedy also is figuring, as Eisenhower did, on a continuation by Congress of certain special taxes scheduled to end or revert to lower rates in three months. This expectation may not be realized.

Possibly the biggest and most questionable assumption in Kennedy's figures is his estimate that his government anti-recession spending program will stimulate

business enough to increase Federal revenues by $900 million in 1962.

On the other hand, government spending in some categories projected by Kennedy undoubtedly will be lower than the President estimates for the very simple reason that Congress most likely will not approve all the proposals for increased spending included in the non-defense spectrum. But it would not be surprising if conservative factors acting against both revenue and spending were to come close to cancelling each other and prevent any considerable deviation from the deficit projected.

Philosophy More Important than Figures

The figures in a Budget—surpluses, deficits and the like—are very important, of course. **But more vital for the long haul is the budgetary philosophy revealed.**

Kennedy's first budget may well be the most conservative he ever submits, with subsequent ones showing an increasing tendency toward the "welfare state". He is not anxious, presumably, at this early stage to go too far too fast. Nevertheless, the pattern is evident in this first Budget. The public is going to get more and more government "services" whether the Budget is balanced or not.

Heavy deficit financing is to be taken for granted on the hopeful theory that spending in periods of recession will be compensated by surpluses in periods of prosperity.

Like it or not, that's the shape of the future. END

Shifts In 1961 Defense Expenditures

(Continued from Page 69)

electronics firms are participating.

Summing Up

Mr. Kennedy's proposals for strengthening the nation's limited-war capability provide no huge new amounts for any one system, and certainly do not answer the Army's persistent pleas for annual modernization funding of $2.5 billion. Some of the $574 million add-on in this category is earmarked for the Navy, including $84 million for ship modernization. Much of this will go for additional electronic equipment, such as antisubmarine and fire control devices, to such firms as **Raytheon, General Electric, IT & T, Philco, Sperry, and General Precision.**

►Stepped-up research will be funded on non-nuclear weapons and support systems. This could be the breeding ground for some substantial production contracts of the future. One such weapon is the field army ballistic missile defense system (FABMIDS), which the Army is now evaluating. **Raytheon,** with its experience on the mobile Hawk anti-aircraft missiles, is eagerly seeking this contract. Other research to be funded with the additional money includes short-range tactical radio systems **(Collins, RCA)**; cross country amphibious trucks **(Borg-Warner)**; and tactical communications systems with associated data processing equipment **(Hughes, Sylvania).**

► **Electronics and communications** contractors are also scheduled to come in for additional contracts under a $230 million add-on for procurement of already-in-production weapons and support equipment. **Overall, the Kennedy budget adds $100 million for independent electronics and communications equipment. Among the components producers expected to benefit are Texas Instruments, Varian, and Ling-Temco.**

►Other limited-war items to be accelerated are **helicopters** (Boeing, Sikorsky, Bell, Hiller), and the new M14 rifle (Remington, Olin Mathieson). Convair's Redeye portable anti-aircraft missile may also benefit from this additional funding.

Overall, it is apparent that the defense contractor with the widest diversification of projects is in the best position to weather the continued fluctuations of this market. **Such a one is Avco Corp. When some of its many projects are adversely affected, others are benefited. Avco is in nose cones for Atlas, Titan and Minuteman; antimissile research; antisubmarine warfare systems; field communications equipment; B-70 stainless steel "skin"; arming and fuzing for Polaris; radar and infrared devices; satellite communication systems; components for Nike Hercules, Talos, and Bullpup missiles and the space agency's Saturn rocket booster; engines for new Army helicopters and fixed wing aircraft; development of high-temperature materials for missiles and rockets; advanced electrical propulsion for space vehicles and others. This kind of diversification is hard to beat with any amount of change in the military procurement picture.** END

For Profit and Income

(Continued from page 93)

put of bituminous coal is lower now than it was 20 years ago. So viewed in broad perspective, this obviously is not an inviting field for investment or speculation. But there are three special-situation coal stocks—Peabody Coal, Truax-Traer Coal and United Electric Coal—which have been touted by brokers and have had good-to-large advances. These companies have one thing in common. They are open-pit strip miners, mainly serving mid-Western electric utilities by cheap water transportation. Utility coal consumption is at a new peak and in a gradual upward trend. But can these stocks be better than stocks of the utilities served? We think not. Profit-dividend growth has either lagged behind, or is no better than, that of the utilities involved. Peabody Coal, for example, now yields less than 2%, although the dividend was recently raised, for the first time in some years, to $0.48 from $0.40, and the stock is selling in the vicinity of 20 times likely 1961 earnings. Three principal customers of this company are Commonwealth Edison, Columbus & Southern Ohio Electric and Kansas City Power & Light. All have had substantial dividend growth over the years. Price-earning ratios on each of these stocks approximate that of Peabody Coal. The cash dividend yield on Commonwealth Edison is about 2.5% but annual stock dividends (2.4% for 1960) are assured. Yield on Kansas City Power & Light is about 3.5%, that on Columbus & Southern Ohio Electric 3.1%. Why speculate in stocks of utility coal suppliers—or any other coal stocks? END

Are You Satisfied with the Progress and Prospects for Your Securites?

This is a strategic time to take a "hard look" at the performance of your investments — in light of the 1958-59 advance— the January-October 1960 setback — and the sharp rebound of the past five months.

Do your holdings combine the security, income and growth qualities you seek? How can you keep your portfolio attuned to investment-business outlook as the "Kennedy New Frontier" takes shape?

If you are not fully satisfied with your investment progress, may we suggest that you consider the strong protection and advantages of Investment Management Service, which has earned the renewal of practical minded clients for 10, 15, 20 years and longer.

Expert Analysis of Your Present Holdings:

Our first step in serving you is to make a detailed report—analyzing your entire list—taking into consideration income, safety, diversificaion, enhancement probabilities—today's factors and tomorrow's outlook.

Issues to Hold and Advantageous Revisions:

Definite counsel is given on each issue in your account . . . advising retention of those most attractive for income and growth . . . preventing sale of those now thoroughly liquidated and likely to improve. We will point out unfavorable or overpriced securities and make substitute recommendations in companies with unusually promising 1961 prospects and longer term profit potentials.

Close Continuous Supervision of All Holdings:

Thereafter—your securities are held under the constant observation of a trained, experienced Account Executive. Working closely with the Directing Board, he takes the initiative in advising you continuously as to the position of your holdings. It is never necessary for you to consult us.

When changes are recommended, precise instructions as to why to sell or buy are given, together with counsel as to the prices at which to act. Alert counsel by first class mail or air mail and by telegraph relieves you of any doubt concerning your investments.

Complete Consultation Privileges:

You can consult us on any special investment problem you may face. Our contacts and original research sometimes offer you aid not obtainable elsewhere—to help you to save—to make money.

Help in Minimizing Your Taxes:

We keep in mind the tax consequences of each transaction and help you to minimize your tax liability. (Our annual fee is allowed as a deduction from your income for Federal Income Tax purposes, considerably reducing the net cost to you.)

Annual Personal Progress Reports:

Throughout the year we keep a complete record of each transaction as you follow our advice. At the end of your annual enrollment you receive our audit of the progress of your account showing just how it has grown in value and the amounts of income it has produced for you.

To investors with $40,000 or more we shall be glad to send full information on Investment Management Service. Our annual fee is based on the current value of the securities and cash to be supervised—so if you will tell us the present worth of your holdings or list them for our evaluation—we shall quote an exact fee—and answer any questions as to how our counsel can benefit you.

INVESTMENT MANAGEMENT SERVICE

A division of THE MAGAZINE OF WALL STREET. *A background of over 53 years of service.*

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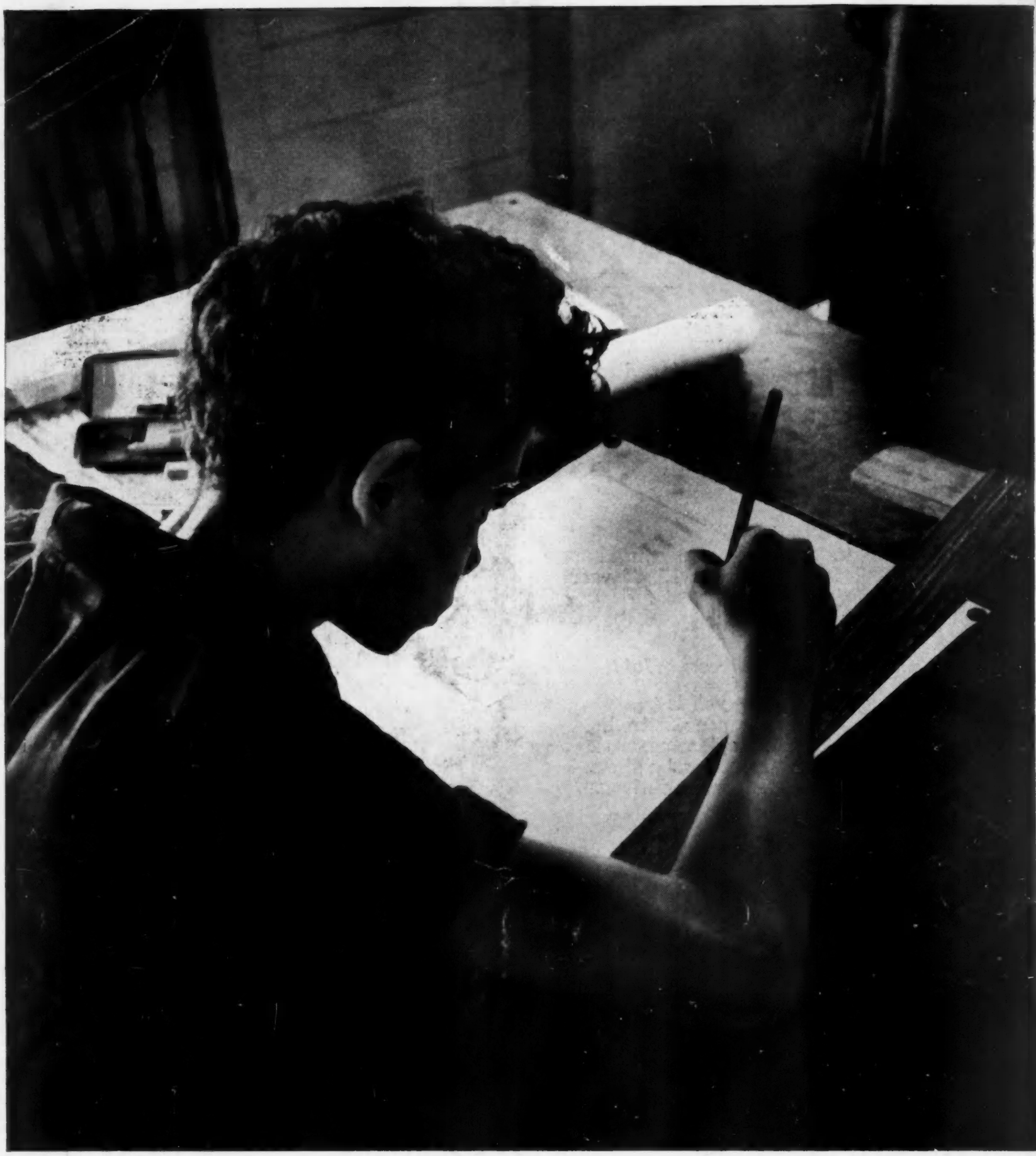

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